



CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Financial Statements

May 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 6 to the consolidated financial statements, the Organization adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*, on May 31, 2007.

KPMG LLP

September 25, 2008

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Balance Sheets

May 31, 2008 and 2007

Assets	2008	2007
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Current assets:		
Cash	\$ 19,729,000	24,220,000
Investments (note 5)	198,328,000	177,649,000
Trade receivables, net	8,940,000	8,646,000
Inventories (note 3)	3,694,000	2,479,000
Auto test inventory	2,267,000	2,345,000
Grants and other receivables	4,111,000	1,576,000
Deferred promotion cost	23,568,000	23,618,000
Prepaid expenses and other current assets	5,172,000	3,853,000
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Total current assets	265,809,000	244,386,000
Property and equipment, net (note 4)	65,225,000	62,092,000
Deferred promotion cost – long term	7,177,000	6,584,000
Asset under derivative instrument (note 10)	—	317,000
Other assets	7,965,000	6,000,000
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Total assets	\$ 346,176,000	319,379,000
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Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,573,000	9,894,000
Accrued compensation	9,214,000	9,259,000
Unearned subscription revenue	115,428,000	110,114,000
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Total current liabilities	137,215,000	129,267,000
Unearned subscription revenue – long term	34,804,000	32,464,000
Liability under derivative instrument (note 10)	1,227,000	—
Long-term debt (note 8)	47,300,000	47,300,000
Other liabilities	14,477,000	12,390,000
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Total liabilities	235,023,000	221,421,000
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Commitments and contingencies (note 7)		
Net assets:		
Unrestricted	100,575,000	94,518,000
Temporarily restricted (note 2)	10,578,000	3,440,000
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Total net assets	111,153,000	97,958,000
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Total liabilities and net assets	\$ 346,176,000	319,379,000
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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, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating:		
Change in unrestricted net assets:		
Revenue and support:		
Subscriptions, newsstand, online, and other sales	\$ 229,309,000	207,990,000
Contributions	17,470,000	18,189,000
Investment (loss) income, net (note 5)	(709,000)	26,299,000
Net assets released from restrictions	2,256,000	2,158,000
Other	507,000	590,000
	<u>248,833,000</u>	<u>255,226,000</u>
Operating and other expenses:		
Publication, promotion, and marketing expenses:		
Content development	80,706,000	72,346,000
Production and distribution	43,772,000	40,447,000
Promotion and marketing	70,310,000	67,364,000
	<u>194,788,000</u>	<u>180,157,000</u>
Consumer advocacy and education	15,952,000	14,001,000
General and administrative	21,077,000	20,351,000
Fundraising	9,402,000	9,013,000
	<u>241,219,000</u>	<u>223,522,000</u>
Total operating and other expenses		
	<u>241,219,000</u>	<u>223,522,000</u>
Total operating income	7,614,000	31,704,000
Nonoperating:		
Unrealized loss on interest rate swap (note 10)	(1,544,000)	(530,000)
Loss from write-off of bond issuance costs	(1,997,000)	—
Pension related changes other than net periodic pension cost (note 6)	1,984,000	—
	<u>(1,557,000)</u>	<u>(530,000)</u>
Total nonoperating loss		
	<u>(1,557,000)</u>	<u>(530,000)</u>
Increase in unrestricted net assets prior to adoption of FASB Statement No. 158	6,057,000	31,174,000
Effect of adoption of FASB Statement No. 158 (note 6)	—	(20,390,000)
	<u>6,057,000</u>	<u>10,784,000</u>
Increase in unrestricted net assets		
Change in temporarily restricted net assets:		
Grants received	5,645,000	1,577,000
Net assets released from restrictions	(2,256,000)	(2,158,000)
Contribution of revenue – split-interest agreements	140,000	234,000
Contribution of revenue – bequest	3,885,000	—
Change in value of split-interest agreements (note 2)	(276,000)	(24,000)
	<u>7,138,000</u>	<u>(371,000)</u>
Increase (decrease) in temporarily restricted net assets		
	<u>7,138,000</u>	<u>(371,000)</u>
Increase in net assets	13,195,000	10,413,000
Net assets at beginning of year	97,958,000	87,545,000
Net assets at end of year	\$ <u>111,153,000</u>	<u>97,958,000</u>

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Functional Expenses

Years ended May 31, 2008 and 2007

	Publication, promotion and marketing	Consumer advocacy and education	General and administrative	Fundraising	2008 Total	Publication, promotion and marketing	Consumer advocacy and education	General and administrative	Fundraising	2007 Total
Salaries, employee benefits, and payroll taxes	\$ 49,637,000	8,062,000	16,322,000	1,542,000	75,563,000	44,446,000	7,271,000	16,039,000	1,394,000	69,150,000
Printing and publications	43,799,000	237,000	691,000	2,506,000	47,233,000	43,431,000	211,000	422,000	2,453,000	46,517,000
Postage and shipping	45,764,000	186,000	—	2,441,000	48,391,000	42,712,000	263,000	—	2,656,000	45,631,000
Sales and marketing	26,675,000	705,000	—	2,288,000	29,668,000	24,012,000	642,000	—	1,764,000	26,418,000
Product testing	4,499,000	—	—	—	4,499,000	4,009,000	—	—	—	4,009,000
Professional fees	5,356,000	2,311,000	2,932,000	239,000	10,838,000	5,125,000	2,215,000	2,908,000	358,000	10,606,000
Insurance	—	—	1,054,000	—	1,054,000	—	—	1,106,000	—	1,106,000
Fees, licenses, and permits	1,105,000	93,000	25,000	—	1,223,000	1,084,000	53,000	34,000	—	1,171,000
Occupancy	906,000	623,000	2,115,000	—	3,644,000	697,000	673,000	1,936,000	—	3,306,000
Grants and awards	—	873,000	—	—	873,000	—	364,000	—	—	364,000
Supplies	414,000	131,000	490,000	10,000	1,045,000	431,000	106,000	460,000	21,000	1,018,000
Telephone	142,000	80,000	303,000	3,000	528,000	90,000	77,000	196,000	1,000	364,000
Travel	922,000	320,000	500,000	116,000	1,858,000	741,000	506,000	436,000	108,000	1,791,000
Meetings and conferences	143,000	487,000	598,000	41,000	1,269,000	89,000	60,000	730,000	28,000	907,000
Dues and subscriptions	237,000	940,000	189,000	2,000	1,368,000	132,000	946,000	99,000	1,000	1,178,000
Interest	—	—	2,339,000	—	2,339,000	—	—	1,551,000	—	1,551,000
Depreciation and amortization	5,218,000	142,000	3,022,000	7,000	8,389,000	3,309,000	107,000	2,324,000	36,000	5,776,000
Sales tax	123,000	—	—	—	123,000	241,000	—	—	—	241,000
Other expenses	461,000	458,000	321,000	74,000	1,314,000	535,000	275,000	1,535,000	73,000	2,418,000
Subtotal	185,401,000	15,648,000	30,901,000	9,269,000	241,219,000	171,084,000	13,769,000	29,776,000	8,893,000	223,522,000
Allocation of direct supporting services	9,387,000	304,000	(9,824,000)	133,000	—	9,073,000	232,000	(9,425,000)	120,000	—
Total	\$ 194,788,000	15,952,000	21,077,000	9,402,000	241,219,000	180,157,000	14,001,000	20,351,000	9,013,000	223,522,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Increase in net assets	\$ 13,195,000	10,413,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,389,000	5,776,000
Amortization of bond issuance costs	114,000	114,000
Net unrealized loss (gain) on investments	8,295,000	(18,549,000)
Net realized gain on investments	(728,000)	(2,028,000)
Unrealized loss on interest rate swap	1,544,000	530,000
Restricted contribution income	(3,749,000)	(210,000)
Write-off of bond issuance costs	1,997,000	—
Pension expense	4,601,000	5,063,000
Other noncash items	142,000	623,000
Actuarial change in charitable gift annuity obligations	1,318,000	291,000
Pension contributions	(2,000,000)	(3,930,000)
Other changes in assets and liabilities:		
Trade receivable, net	(294,000)	(1,104,000)
Inventories and auto test inventory	(1,137,000)	1,678,000
Grants and other receivables	(467,000)	2,163,000
Deferred promotion	(543,000)	694,000
Prepaid expenses and other current assets	(1,318,000)	160,000
Other noncurrent assets	(2,551,000)	14,336,000
Accounts payable and accrued liabilities	2,600,000	4,723,000
Charitable gift annuity obligation	657,000	984,000
Pension liability	(1,984,000)	—
Accrued compensation	(45,000)	506,000
Unearned subscription revenue	7,654,000	10,848,000
Other liabilities	524,000	—
Net cash provided by operating activities	36,214,000	33,081,000
Cash flows from capital investments and other investing activities:		
Purchases of property and equipment	(6,107,000)	(5,352,000)
Payments for computer software and development	(5,415,000)	(4,789,000)
Purchase of investments	(222,369,000)	(126,493,000)
Proceeds from sales of investments	194,123,000	111,546,000
Net cash used in capital investments and other investing activities	(39,768,000)	(25,088,000)
Cash flows from financing activities:		
Repayment of long-term debt	(47,300,000)	—
Payments of charitable gift annuity obligations	(521,000)	(399,000)
Proceeds from long-term debt issuance	47,300,000	—
Payment of bond issuance costs	(416,000)	—
Release of funds held by bond trustee	—	3,482,000
Net cash (used in) provided by financing activities	(937,000)	3,083,000
Net (decrease) increase in cash	(4,491,000)	11,076,000
Cash at beginning of year	24,220,000	13,144,000
Cash at end of year	\$ 19,729,000	24,220,000
Supplemental cash flow information:		
Cash paid for interest	\$ 2,246,000	1,331,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(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 other periodicals, as well as a provider of online 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.

(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) and Truman Avenue Fund, Inc. (TAFI). CUAF is an affiliated organization incorporated in April 2006 as a nonmembership Delaware not-for-profit corporation. CUAF's operations will focus on consumer-related grassroots legislative campaigns and 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 organization incorporated in September 2006 as a nonmembership Delaware not-for-profit corporation. TAFI's operations will focus on holding contributed investment property and it is recognized by the IRS as a tax-exempt organization under Section 501(c)(3) of the Code. 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.

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 an unrealized loss on an interest rate swap, loss from a write-off of bond issuance costs, and pension related changes.

In the statements of functional expenses for the years ended May 31, 2008 and 2007, 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2008 and 2007

(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. Sales to newsstand distributors are recognized as revenue in the month of distribution, using historical experience to estimate the ultimate sales of magazines to 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 \$6,342,000 and \$6,421,000 at May 31, 2008 and 2007, respectively. As of May 31, 2008, trade receivables primarily consist of receivables from subscriptions (58%), newsstand sales (38%), and mailing list rental sales (4%).

In addition, CU at times has been the recipient of cy-près awards and legal fee reimbursements. These awards are recognized when received. In 2008 and 2007, the Organization received \$233,000 and \$453,000, respectively, in awards that are included in revenue and support as other in the accompanying consolidated statements of activities.

CU 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 American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) 93-7, *Reporting on Advertising Costs*. In accordance with Statement of Financial Accounting Standards (SFAS) No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB 29*, and Accounting Principles Board Opinion No. 29, *Accounting for Nonmonetary Transactions*, 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. As of May 31, 2008 and 2007, the fair value of the names owed on exchange amounted to \$321,000 and \$383,000, respectively, and is included in accounts payable and accrued liabilities on the consolidated balance sheet.

(d) **Deferred Promotion Costs**

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 SOP 93-7. These costs are amortized over the periods of the subscriptions generated from these promotions, not to exceed two years. Deferred promotion costs to be amortized within one year are included as deferred promotion costs – current and the portion of the deferred promotion costs to be amortized in excess of one year is classified as deferred promotion costs – long term. At May 31, 2008 and 2007, approximately \$30,745,000 and \$30,202,000, respectively, of promotion costs were deferred as

CONSUMERS UNION OF UNITED STATES, INC.

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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 \$31,987,000 and \$32,580,000 in 2008 and 2007, respectively. During the year ended May 31, 2007, CU recorded a write-down of deferred promotion asset to net realizable value in the amount of \$48,000. There were no write-downs of deferred promotion assets in 2008.

(e) *Derivative Instruments*

CU follows the provisions of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as mentioned by SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS Nos. 133 and 149 require 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 (note 10). The fair value of the derivative instrument held is based upon values provided by a third-party financial institution.

(f) *Investments*

Investments at May 31, 2008 and 2007 consist of U.S. Treasury, mortgage-backed securities, commingled trust funds, and socially responsible mutual funds. The value of these securities is recorded at fair value based on quoted market prices. Gains and losses, including unrealized amounts, 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.

(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 amortized straight line over the shorter of the lease term or the estimated useful life of the asset.

In accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed for Obtained for Internal Use*, 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.

CONSUMERS UNION OF UNITED STATES, INC.

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(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. Gains and losses, including unrealized amounts, under this program are reported within investment income, net in the accompanying consolidated statements of activities. The annuity payment liability is recognized at the actuarially determined present value of future cash flows expected to be paid to the donor. 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 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. 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

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May 31, 2008 and 2007

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. 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 SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, 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 liability sections of the consolidated balance sheet. There were no impairments in 2008 and 2007.

(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 expense. 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, 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) *Recently Adopted Accounting Standards*

Effective June 1, 2007, CU adopted provisions of Financial Accounting Standards Board Interpretation (FASB) No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 addresses the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, classification, interest and penalties, and disclosure. The adoption of this accounting

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standard did not have any impact on the consolidated financial statements for the year ended May 31, 2008.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS No. 158 requires organizations to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements and to recognize a change in net funded status in unrestricted net assets in the year in which the change occurs. SFAS No. 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's year-end. The recognition of an asset and liability related to the funded status provision is effective for fiscal years ending after June 15, 2007 and the change in measurement date provisions was effective for fiscal years ending after December 15, 2008. CU elected to adopt the recognition of an asset and liability related to the funded status provisions of SFAS No. 158 at May 31, 2007. The impact of adoption to unrestricted net assets was a reduction of \$20,390,000 for the year ended May 31, 2007. There was no impact on pension expense and cash flow. CU is in compliance with the measurement-date provisions of SFAS No. 158, which requires new measurement dates coinciding with CU's fiscal year for all plans. See note 6 for further discussion of the implementation of SFAS No. 158.

(o) *Reclassifications*

Certain reclassifications have been made to the 2007 reported amounts to conform to the 2008 presentation.

(2) **Temporarily Restricted Net Assets**

Temporarily restricted net assets were \$10,578,000 and \$3,440,000 as of May 31, 2008 and 2007, respectively and consist of the following:

	<u>2008</u>	<u>2007</u>
Split-interest agreements	\$ 725,000	861,000
Bequest receivable	3,885,000	—
Grantor-imposed purpose restrictions	<u>5,968,000</u>	<u>2,579,000</u>
	<u>\$ 10,578,000</u>	<u>3,440,000</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 the 2006. In addition, the donor received an annuity in exchange for the property. In 2007, the value of the property increased to \$1,350,000 and the value of the liabilities increased by \$66,000. The net decrease of \$16,000 was recorded as a change in value of split-interest agreements in the accompanying consolidated statements of activities for the year ended May 31, 2007. In 2008, the value of the property decreased to \$1,038,000 and the value of the liabilities decreased by \$127,000. The net decrease of \$248,000 was recorded as a change in value of split-interest agreements in the accompanying consolidated statements of activities for the year ended May 31, 2008.

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CU entered into one CRUT with donors during 2008 and three CRUTs in 2007. Trust assets of \$676,000 and \$1,137,000 and liabilities to donors of \$545,000 and \$911,000 were recognized in 2008 and 2007, respectively, and are included in other assets and other liabilities, respectively, in the consolidated balance sheets as of May 31, 2008 and 2007. In relation to these arrangements, CU recorded \$140,000 of temporarily restricted contribution revenue partially offset by \$28,000 for a change in value of split-interest agreements from the date of the donations, which is included in the accompanying consolidated statements of activities for the year ended May 31, 2008.

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 first payment from the promissory notes of \$685,000 was received on July 10, 2007 and was included in contributions in the accompanying consolidated statements of activities for the year ended May 31, 2008. The payment related to the liquidation of the estate's other assets was estimated to be \$1,383,000 and was recorded as a time-imposed restricted contribution as of May 31, 2008. Since the portion of the bequest that was not received as of May 31, 2008 is restricted because it is to be received in future years, a receivable of \$3,885,000, net of a present value discount of \$353,000, was recognized as of May 31, 2008. The short-term portion of the bequest receivable of \$2,068,000 is included in prepaid expenses and other current assets and the long-term portion of \$1,816,000, net of present value discount, is included in other assets in the accompanying consolidated balance sheet as of May 31, 2008. The long-term receivable portion was discounted using a rate of 6.0% and there is no allowance for uncollectible amounts as CU believes that the full amount due under the bequest is collectible.

Temporarily restricted net assets due to grant-imposed stipulations at May 31, 2008 and 2007 are available for the following purposes:

	<u>2008</u>	<u>2007</u>
Best Buy Drugs (a)	\$ 4,024,000	—
Best Buy Drugs Magazine (b)	393,000	—
Democratic Pluralism (c)	252,000	149,000
Web and Emerging Payments (d)	251,000	—
Health Care Reform (e)	212,000	—
Hear Us Now (f)	196,000	91,000
Consumer Advocacy (g)	144,000	200,000
Best Buy Drugs (h)	116,000	642,000
Cyber Awareness (i)	76,000	108,000
Community Health Assets Project (j)	70,000	880,000
Green Consumers (k)	50,000	123,000
Online Guide to Shopping for Prescription Drugs (l)	5,000	170,000
Other grants outstanding less than \$100,000 individually	179,000	216,000
	<u>\$ 5,968,000</u>	<u>2,579,000</u>

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- (a) 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.
- (b) Represents a grant received by CU to assist with the start-up costs of the first print run of an annual Best Buy Drugs Magazine.
- (c) Represents a grant received by CU for continued support of Democratic Pluralism in Media project.
- (d) Represents a court-ordered payment received by CU to improve Web and emerging payment methods by identifying and mitigating new risks that may be unique to Web-based and other forms of emerging payments.
- (e) Represents a grant received for CU to advocate for policies that advance the interests of consumers in the current healthcare reform debate.
- (f) Represents a grant received by CU that enabled CU to launch the HearUsNow.org Web site with practical information, consumer tips, historical background material, and strategic policy advice on six areas important to information democracy: media ownership policy, traditional telephone services, wireless, Internet/Broadband, radio-TV-cable, and digital content.
- (g) Represents a court-ordered payment received by CU to support CU's national consumer advocacy work.
- (h) Represents a grant received by CU to provide readily accessible, unbiased, evidence-based information about drug value.
- (i) Represents a grant received by CU to assist in conducting a New York Internet Safety and Security Campaign by publicizing consumer education material to help prevent auction fraud, phishing, and identity theft, and briefing reporters statewide on fraud issues.
- (j) Represents grants received by CU in connection with health marketplace change and reform.
- (k) Represents a grant received by CU to provide support for a broad online sustainable consumption service entitled "Greener Choices," which will inform and empower the large segment of consumers interested in green purchasing.
- (l) Represents a grant received by CU to create online shopper guide for prescription drugs.

All of the temporarily restricted assets due to grantor-imposed restrictions are included in cash or grants and other receivables with the exception of the long-term portion of the Best Buy Drugs Grant. This grant is over a three-year period and \$1,323,000 is expected to be received within the next fiscal year and is included in grants and other receivables on the accompanying consolidated balance sheet as of May 31, 2008. The portion expected to be collected beyond the next fiscal year is \$2,701,000, net of a discount of \$389,000, and is included in other assets on the accompanying consolidated balance sheet as of May 31, 2008. The long-term receivable portion is discounted at 6.2%.

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(3) Inventories

Inventories at May 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Paper	\$ 3,196,000	1,851,000
Published books	495,000	626,000
Books in process	3,000	2,000
	<u>\$ 3,694,000</u>	<u>2,479,000</u>

(4) Property and Equipment

Property and equipment at May 31, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 11,935,000	11,935,000
Buildings and building improvements	60,830,000	57,644,000
Furniture, fixtures, and equipment	31,834,000	29,030,000
Capitalized computer software	26,285,000	20,870,000
	130,884,000	119,479,000
Less accumulated depreciation and amortization	<u>65,659,000</u>	<u>57,387,000</u>
Net property and equipment	<u>\$ 65,225,000</u>	<u>62,092,000</u>

Depreciation and amortization expense for the years ended May 31, 2008 and 2007 was \$8,389,000 and \$5,776,000, respectively. At May 31, 2008 and 2007, capitalized computer software was \$10,661,000 and \$9,854,000, respectively, net of accumulated amortization of \$15,624,000 and \$11,016,000, respectively. Amortization expense for capitalized computer software was \$4,608,000 and \$2,485,000 in 2008 and 2007, respectively.

(5) Investments

CU's investment policies are limited to those investments issued, collateralized, insured, or guaranteed by the U.S. government, U.S. agencies, or U.S. instrumentalities and other respective branches as well as commingled trust funds and mutual funds.

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The fair value of investments as of May 31, 2008 and 2007 consists of the following:

	<u>2008</u>	<u>2007</u>
Equity and debt securities – commingled trust and mutual funds	\$ 146,193,000	136,245,000
Mortgage-backed securities	33,223,000	16,280,000
U.S. Treasury securities	18,912,000	25,106,000
Other	—	18,000
	<u>\$ 198,328,000</u>	<u>177,649,000</u>

Investment (loss) income included in the consolidated statements of activities for the years ended May 31, 2008 and 2007 was composed of:

	<u>2008</u>	<u>2007</u>
Investment and dividend income	\$ 6,858,000	5,722,000
Net unrealized (losses) gains	(8,295,000)	18,549,000
Net realized gains	728,000	2,028,000
	<u>\$ (709,000)</u>	<u>26,299,000</u>

Investment expenses were \$305,000 and \$309,000 for the years ended May 31, 2008 and 2007, respectively, and are included in general and administrative expenses.

The investment policy statement governing CU's corporate investment portfolio maintains a target asset allocation of 35% fixed income, 50% domestic equity, and 15% international equity. Equity holdings are invested in broadly diversified commingled trust and mutual funds that are intended to replicate widely used market indices. The objective of the fixed income portfolio is to provide a competitive rate of return in excess of a benchmark consisting of 50% Lehman Brothers Intermediate Government Index and 50% Lehman Brothers Mortgage Index. Generally, the investment guidelines restrict investments to U.S. dollar-denominated obligations of the U.S. government and its agencies and instrumentalities. The portfolio maintains a significant investment in mortgage-backed securities, which includes \$29,206,000 in Fannie Mae securities. CU views the risk associated with owning a significant investment in high-quality mortgage-backed securities as minimal.

As of August 31, 2008, the investment balance is \$189,014,000.

(6) Employee Benefits

Defined Benefit Plan

CU maintains three defined benefit plans covering a majority of its employees during 2008 and 2007. 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 multi-employer pension plan providing supplemental pension

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benefits for all union employees (the Guild Plan). Contributions for the Guild Plan and the related expense recognized were \$95,000 and \$90,000 in 2008 and 2007, respectively.

The measurement date used to determine pension benefit measures for the Management Plan and the Union Plan is May 31, 2008.

The Management Plan was divided into two separate, defined benefit retirement plans – one covering individuals who were either participants in the Management Plan on February 28, 2001 and elected not to have certain nonmatching employer contributions made to the Consumers Union Retirement and Savings Plan with respect to periods on or after March 1, 2001 and the other covering those individuals who were participants in the Management Plan on February 28, 2001 and elected to have certain nonmatching employer contributions made to the Consumers Union Retirement and Savings Plan on their behalf with respect to periods on or after March 1, 2001 (Electing Participants). The effective date of the division of the Management Plan was June 1, 2001. The Consumers Union of the United States, Inc. Pension Plan for Certain Management/Exempt Employees (the Spin-Off Plan) covering Electing Participants was established effective June 1, 2001.

Effective May 31, 2007, CU adopted the recognition and disclosure provisions of SFAS No. 158 (note 1). SFAS No. 158 requires organizations to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on their balance sheets.

The amounts in the adjustment to unrestricted net assets as of May 31, 2008 that are expected to be recognized as components of net periodic benefit cost during the next fiscal year are as follows:

Prior service cost recognition	\$	129,000
Actuarial loss		<u>727,000</u>
Total	\$	<u><u>856,000</u></u>

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May 31, 2008 and 2007

Obligations and Funded Status

At May 31:

	Pension benefits	
	2008	2007
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	\$ 80,865,000	75,076,000
Service cost	4,061,000	3,778,000
Interest cost	4,818,000	4,731,000
Change in actual/projected compensation	1,956,000	—
Actuarial (gain) loss	(2,172,000)	2,458,000
Benefits and administrative expenses paid	(8,606,000)	(4,081,000)
Change in discount rate	(5,523,000)	(1,097,000)
Projected benefit obligation at the end of year	<u>75,399,000</u>	<u>80,865,000</u>
Change in plan assets:		
Fair value of plan assets at the beginning of year	75,976,000	66,567,000
Actual return on plan assets	250,000	9,527,000
Employer contributions	2,000,000	3,930,000
Benefits and administrative expenses paid	(8,333,000)	(4,048,000)
Fair value of assets at the end of year	<u>69,893,000</u>	<u>75,976,000</u>
Funded status	<u>\$ (5,506,000)</u>	<u>(4,889,000)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$61,890,000 and \$67,665,000 at May 31, 2008 and 2007, 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, 2008 and 2007, as provided by CU's actuaries, were as follows:

	2008	2007
Funded status:		
Accumulated benefit obligation	\$ <u>61,890,000</u>	<u>67,665,000</u>
Projected benefit obligation	\$ 75,399,000	80,865,000
Fair value of plan assets available for benefits	<u>69,893,000</u>	<u>75,976,000</u>
Funded status	<u>\$ (5,506,000)</u>	<u>(4,889,000)</u>

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	Management Plan	
	2008	2007
Funded status:		
Accumulated benefit obligation	\$ 32,305,000	35,037,000
Projected benefit obligation	\$ 37,979,000	40,038,000
Fair value of plan assets available for benefits	37,744,000	41,081,000
Funded status	\$ (235,000)	1,043,000

	Union Plan	
	2008	2007
Funded status:		
Accumulated benefit obligation	\$ 29,585,000	32,628,000
Projected benefit obligation	\$ 37,420,000	40,827,000
Fair value of plan assets available for benefits	32,149,000	34,895,000
Funded status	\$ (5,271,000)	(5,932,000)

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, 2008 and 2007, as provided by CU's actuaries, were as follows:

	2008	2007
Amounts recognized in the consolidated balance sheet consist of:		
Noncurrent assets	\$ —	1,043,000
Noncurrent liabilities	(5,506,000)	(5,932,000)
Total	\$ (5,506,000)	(4,889,000)
Amounts recognized as an adjustment to unrestricted net assets consist of:		
Unrecognized prior service cost	\$ 1,187,000	1,316,000
Unrecognized actuarial loss	17,219,000	19,074,000
Total adjustment to unrestricted net assets	\$ 18,406,000	20,390,000

The change of the adjustment to unrestricted net assets of the plans resulted in a \$1,984,000 increase 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 year ended May 31, 2008.

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The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2008 and 2007 measurement dates were as follows:

	<u>2008</u>	<u>2007</u>
Discount rate:		
Management Plan (pre-retirement)/(postretirement)	6.90% / 6.90%	6.15% / 6.15%
Union Plan (pre-retirement)/(postretirement)	7.05 / 7.05	6.25 / 6.25
Future salary increases:		
Management Plan	4.00%	4.00%
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.

Components for net periodic benefit cost for the years 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Service cost	\$ 4,061,000	3,778,000
Interest cost	4,818,000	4,731,000
Expected return on plan assets	(5,320,000)	(4,921,000)
Amortization of prior service cost	129,000	129,000
Amortization of unrecognized transition obligation	—	648,000
Amortization of net loss	913,000	698,000
Net periodic benefit cost	\$ <u>4,601,000</u>	<u>5,063,000</u>

The weighed average assumptions used to determine net periodic benefit cost for the years 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Discount rate:		
Management Plan (pre-retirement)/(postretirement)	6.15% / 6.15%	6.25% / 5.75%
Union Plan (pre-retirement)/(postretirement)	6.25 / 6.25	6.25 / 5.75
Expected return on plan assets:		
Management Plan	7.50%	7.50%
Union Plan	7.50	7.50
Future salary increases:		
Management Plan	4.00%	4.00%
Union Plan	4.00	4.00

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The Organization's overall expected long-term rate of return on plan assets is 7.5% for both the Management Plan and 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.

Plan Assets

The weighted average asset allocation of CU's pension assets at May 31, 2008 and 2007 were as follows:

	Management Plan Assets	
	2008	2007
Asset category:		
U.S. equities	44.5%	43.6%
International equities	11.4	10.7
Debt securities	44.1	45.7
Total	100.0%	100.0%
	Union Plan Assets	
	2008	2007
Asset category:		
U.S. equities	44.9%	45.7%
International equities	12.4	10.7
Debt securities	41.5	38.5
Other (money market)	1.2	5.1
Total	100.0%	100.0%

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 equity securities. These funds can be sold to fund benefit payments obligations as they become payable.

The target allocation for assets of the Management Plan is 40% fixed income securities, 50% U.S. equity securities, and 10% international equity securities, within a range of 5% of the target percentage. The asset allocation of this plan as of May 31, 2008 and 2007 does not adhere to the target allocation as recent as a result of an overweighting in the fixed income asset class in order to meet liquidity needs associated with pending lump-sum distributions.

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 asset allocation of this plan as of May 31, 2008 adheres to the target allocation.

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Cash Flows

CU expects to contribute \$2,000,000 to the Management Plan and \$1,000,000 to the Union Plan for the fiscal year ending May 31, 2009.

The benefits expected to be paid out from the pension plans are as follows:

	<u>Management Plan</u>	<u>Union Plan</u>
Year:		
2009	\$ 3,343,000	4,509,000
2010	2,912,000	2,093,000
2011	2,919,000	2,315,000
2012	3,809,000	2,156,000
2013	4,023,000	2,606,000
2014 – 2017	18,295,000	18,690,000

The expected benefits are based on the same assumptions used to measure CU's benefits obligation at May 31, 2008 and include estimated future employee service.

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. In addition, for management/exempt employees not participating in the defined benefit Management Plan, CU contributes 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 combined contributions to the 401(k) plans were \$2,299,000 and \$1,843,000 in 2008 and 2007, 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 \$71,000 and \$60,000 in 2008 and 2007, respectively.

(7) Commitments

CU leases office facilities and certain equipment for which rental expense was \$634,000 and \$692,000 in fiscal years 2008 and 2007, 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 10 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.

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Future minimum cash payments under noncancelable leases are as follows as of May 31:

Year:		
2009	\$	638,000
2010		540,000
2011		495,000
2012		326,000
2013		318,000
2014 and thereafter		<u>1,089,000</u>
	\$	<u><u>3,406,000</u></u>

(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 issued as Auction Rate Securities. These bonds are continuously remarketed and the rate is reset weekly. The average auction rate for 2008 and 2007 was 4.2% and 3.2%, respectively. 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% of the bonds at a fixed interest rate of 3.65% per annum. Additional information regarding the interest rate swap is in note 10.

In accordance with the 2005 Revenue Bonds agreement, CU has purchased a municipal bond insurance policy, which guarantees the payment of principal and interest on the 2005 Revenue Bonds. A one-time payment of \$1,067,000 was made at closing to cover the costs of the insurance for the duration of the bonds and is included in the cost of issuing the 2005 revenue bonds noted below.

Since these bonds were insured, it enabled CU to credit enhance the bonds given the bond insurer's strong credit rating. In 2008, the ratings agencies raised concerns regarding the insurer's credit strength as an unprecedented credit crisis impacted the economy. These factors impacted the marketability of CU's bonds. As a result, CU's debt costs increased significantly during 2008. The weekly auction that determined CU's interest rate increased as the market demand for CU's bonds slowed. As a result, CU evaluated numerous options intended to reduce the volatility and interest rates associated with CU's debt costs. CU determined that exercising a mode change of the existing bonds was the most desirable option. An amendment to the existing indenture agreement would be required in order to effectuate the mode change.

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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 mode change does not change significant terms of the original indenture except how the bonds are being marketed. 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 starting in 2011. Total long-term annual sinking fund requirements for the revenue bonds are as follows as of May 31:

Year:	
2009	\$ —
2010	—
2011	1,125,000
2012	1,175,000
2013	1,200,000
2014 to 2036	<u>43,800,000</u>
	<u>\$ 47,300,000</u>

The cost of issuing the 2005 Revenue Bonds was \$2,274,000, which was entirely paid out of bond proceeds. This included a payment of \$1,067,000 for bond insurance premiums and \$1,207,000 related to other direct costs of issuance. The mode change from auction rate securities to variable rate demand bonds is considered a substantial modification of terms and was accounted as an extinguishment of the debt and issuance of new debt. As such, the unamortized balance of direct issuance costs of \$1,060,000 was written off. In addition, the insurance policy which remains in effect under the new mode and has a carrying value of \$937,000 was determined to be permanently impaired and has been written-off as of May 31, 2008. The combined total amount written-off is \$1,997,000 and is included as a loss from write-off of bond issuance costs on the accompanying consolidated statements of activities as of May 31, 2008.

The issuance costs related to the mode change amounted to \$416,000 and were paid out of cash from operations. Both the issuance costs related to the mode change and the prepaid bond insurance 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, 2008.

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 for long-term debt for 2008 and 2007 was \$2,339,000 and \$1,551,000, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities.

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The average interest rate on all outstanding debt was 4.9% and 3.3% for the fiscal years ended May 31, 2008 and 2007, respectively.

(9) Bank Borrowings

CU has an unused line of credit totaling \$10,000,000 at May 31, 2008. 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%. At May 31, 2008 and 2007, 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 letter of credit in the amount of \$47,829,000. 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%) 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% to 4% based on the length of time the letter of credit contained an outstanding balance. As of May 31, 2008, 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 hedge is pursuant to an International Swaps and Derivatives Association, Inc. Master Agreement with Morgan Stanley Capital Services, Inc. (Swap Provider) dated as of 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 floating rate payable under the Swap by the Swap Provider 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. The fixed rate payable under the Swap by CU is 3.65% per annum, payable monthly on the first day of each month, commencing February 1, 2006 through the termination date.

As of May 31, 2008 and 2007, the fair value of the Swap is \$(1,227,000) and \$317,000, respectively. These amounts are reflected on the accompanying consolidated balance sheets and the associated gain or loss is included in the accompanying consolidated statements of activities as unrealized gain or 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 \$8,400,000 and \$8,071,000 at May 31, 2008 and 2007, respectively. The Organization's liability associated with CGAs was \$5,882,000 and \$4,428,000, utilizing discount rates of 3.2% and 5.6% at May 31, 2008 and 2007, respectively. During 2008 and 2007, respectively, CU recognized \$494,000 and \$646,000 in unrestricted contribution revenue attributable to new CGAs, which was offset by \$1,318,000 and \$291,000 associated with the changes in the present value of the related liability.

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(12) 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. Additionally, another vice president of the Organization is temporarily acting as executive director for CI without compensation. Membership expense was \$805,000 and \$775,000 for the years ended May 31, 2008 and 2007, respectively, and was included in consumer advocacy and education on the accompanying consolidated statements of activities. Membership payments were \$755,000 and \$725,000 for the years ended May 31, 2008 and 2007, respectively.

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. CU's investment was \$51,000 for one capital share, which is entitled to six votes. This investment is accounted for on the cost method as CU's ownership percentage and voting interest does not provide CU with significant influence over the operations of ICRT. In fiscal 2008 and 2007, CU also paid ICRT membership fees of \$132,000 and \$49,000, respectively. In 2008 and 2007, CU made payments of \$386,000 and \$217,000, respectively, for certain product testing results. Additionally, CU received \$192,000 and \$29,000 during 2008 and 2007, 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.