



CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Financial Statements

May 31, 2009 and 2008

(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 the United States, Inc. (the Organization) as of May 31, 2009 and 2008, 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 the United States, Inc. as of May 31, 2009 and 2008, 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 17, 2009

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Balance Sheets

May 31, 2009 and 2008

Assets	2009	2008
Current assets:		
Cash	\$ 16,756,000	19,729,000
Investments (note 5)	137,431,000	198,328,000
Trade receivables, net	11,514,000	8,940,000
Inventories (note 3)	2,236,000	3,694,000
Auto test inventory	2,139,000	2,267,000
Grants and other receivables	3,760,000	4,111,000
Deferred promotion cost	23,502,000	23,568,000
Prepaid expenses and other current assets	6,901,000	5,172,000
Total current assets	204,239,000	265,809,000
Property and equipment, net (note 4)	65,882,000	65,225,000
Deferred promotion cost – long term	6,832,000	7,177,000
Investments – long term (note 5)	19,502,000	—
Other assets (notes 2 and 12)	6,612,000	7,965,000
Total assets	\$ 303,067,000	346,176,000
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 11,557,000	12,573,000
Accrued compensation	9,114,000	9,214,000
Unearned subscription revenue	112,662,000	115,428,000
Total current liabilities	133,333,000	137,215,000
Unearned subscription revenue – long term	33,292,000	34,804,000
Liability under derivative instrument (note 10)	4,210,000	1,227,000
Long-term debt (note 8)	47,300,000	47,300,000
Other liabilities (notes 6 and 11)	26,362,000	14,477,000
Total liabilities	244,497,000	235,023,000
Commitments and contingencies (note 7)		
Net assets:		
Unrestricted	50,677,000	100,575,000
Temporarily restricted (note 2)	7,893,000	10,578,000
Total net assets	58,570,000	111,153,000
Total liabilities and net assets	\$ 303,067,000	346,176,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Activities

Years ended May 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating:		
Change in unrestricted net assets:		
Revenue and support:		
Subscriptions, newsstand, online, and other sales	\$ 225,743,000	229,309,000
Contributions	16,901,000	17,470,000
Net assets released from restrictions	4,450,000	2,256,000
Other	<u>670,000</u>	<u>507,000</u>
Total revenue and support	<u>247,764,000</u>	<u>249,542,000</u>
Operating and other expenses:		
Publication, promotion, and marketing expenses:		
Content development	84,670,000	80,706,000
Production and distribution	41,013,000	43,772,000
Promotion and marketing	<u>71,592,000</u>	<u>70,310,000</u>
	197,275,000	194,788,000
Consumer advocacy and education	17,527,000	15,952,000
General and administrative	21,134,000	20,772,000
Fundraising	<u>9,592,000</u>	<u>9,402,000</u>
Total operating and other expenses	<u>245,528,000</u>	<u>240,914,000</u>
Total operating income	<u>2,236,000</u>	<u>8,628,000</u>
Nonoperating:		
Investment loss, net (note 5)	(38,082,000)	(1,014,000)
Unrealized loss on interest rate swap (note 10)	(2,983,000)	(1,544,000)
Loss from write-off of bond issuance costs	—	(1,997,000)
Pension-related changes other than net periodic pension cost (note 6)	(10,012,000)	1,984,000
Loss on curtailment of management pension plan (note 6)	<u>(1,057,000)</u>	<u>—</u>
Total nonoperating loss	<u>(52,134,000)</u>	<u>(2,571,000)</u>
Increase (decrease) in unrestricted net assets	<u>(49,898,000)</u>	<u>6,057,000</u>
Change in temporarily restricted net assets:		
Grants received	1,849,000	5,645,000
Net assets released from restrictions	(4,450,000)	(2,256,000)
Contribution of revenue – split-interest agreements	65,000	140,000
Contribution of revenue – bequest	98,000	3,885,000
Change in value of split-interest agreements (note 2)	<u>(247,000)</u>	<u>(276,000)</u>
Increase (decrease) in temporarily restricted net assets	<u>(2,685,000)</u>	<u>7,138,000</u>
Increase (decrease) in net assets	<u>(52,583,000)</u>	<u>13,195,000</u>
Net assets at beginning of year	<u>111,153,000</u>	<u>97,958,000</u>
Net assets at end of year	<u>\$ 58,570,000</u>	<u>111,153,000</u>

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Functional Expenses

Years ended May 31, 2009 and 2008

	<u>Publication, promotion, and marketing</u>	<u>Consumer advocacy, and education</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>2009 Total</u>	<u>Publication, promotion, and marketing</u>	<u>Consumer advocacy, and education</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>2008 Total</u>
Salaries, employee benefits, and payroll taxes	\$ 55,047,000	9,271,000	17,032,000	1,558,000	82,908,000	51,050,000	8,042,000	14,920,000	1,542,000	75,554,000
Printing and publications	43,586,000	394,000	502,000	2,620,000	47,102,000	42,405,000	314,000	571,000	2,506,000	45,796,000
Postage and shipping	40,428,000	221,000	192,000	2,554,000	43,395,000	44,976,000	248,000	187,000	2,441,000	47,852,000
Sales and marketing	29,017,000	571,000	—	2,306,000	31,894,000	27,453,000	643,000	—	2,288,000	30,384,000
Product testing	4,464,000	—	—	—	4,464,000	4,501,000	—	—	—	4,501,000
Professional fees	4,368,000	2,733,000	2,193,000	231,000	9,525,000	5,357,000	2,310,000	2,932,000	239,000	10,838,000
Insurance	—	—	1,054,000	—	1,054,000	—	—	1,054,000	—	1,054,000
Fees, licenses, and permits	1,138,000	12,000	36,000	1,000	1,187,000	1,105,000	32,000	25,000	—	1,162,000
Occupancy	796,000	701,000	2,161,000	—	3,658,000	906,000	655,000	2,115,000	—	3,676,000
Grants and awards	—	826,000	—	—	826,000	—	873,000	—	—	873,000
Supplies	399,000	82,000	511,000	7,000	999,000	414,000	131,000	490,000	12,000	1,047,000
Telephone	136,000	97,000	306,000	1,000	540,000	142,000	80,000	303,000	3,000	528,000
Travel	704,000	687,000	322,000	39,000	1,752,000	922,000	723,000	499,000	116,000	2,260,000
Meetings and conferences	82,000	34,000	341,000	31,000	488,000	143,000	84,000	598,000	41,000	866,000
Dues and subscriptions	200,000	943,000	232,000	2,000	1,377,000	237,000	940,000	189,000	2,000	1,368,000
Interest	—	—	1,791,000	—	1,791,000	—	—	2,339,000	—	2,339,000
Depreciation and amortization	6,084,000	198,000	3,450,000	4,000	9,736,000	5,218,000	142,000	3,022,000	7,000	8,389,000
Sales tax	117,000	—	—	—	117,000	123,000	—	—	—	123,000
Other expenses	639,000	376,000	1,610,000	90,000	2,715,000	449,000	431,000	1,352,000	72,000	2,304,000
Subtotal	187,205,000	17,146,000	31,733,000	9,444,000	245,528,000	185,401,000	15,648,000	30,596,000	9,269,000	240,914,000
Allocation of direct supporting services	10,070,000	381,000	(10,599,000)	148,000	—	9,387,000	304,000	(9,824,000)	133,000	—
Total	\$ <u>197,275,000</u>	<u>17,527,000</u>	<u>21,134,000</u>	<u>9,592,000</u>	<u>245,528,000</u>	<u>194,788,000</u>	<u>15,952,000</u>	<u>20,772,000</u>	<u>9,402,000</u>	<u>240,914,000</u>

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (52,583,000)	13,195,000
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,736,000	8,389,000
Amortization of bond issuance costs	24,000	114,000
Amortization of intangible assets	89,000	—
Net unrealized loss on investments	45,552,000	8,295,000
Net realized gain on investments	(1,256,000)	(728,000)
Unrealized loss on interest rate swap	2,983,000	1,544,000
Restricted contribution income	(163,000)	(4,025,000)
Change in value of split-interest agreements	247,000	276,000
Write-off of bond issuance costs	—	1,997,000
Pension expense	5,134,000	4,601,000
Loss on curtailment of management/exempt pension plan	1,057,000	—
Other noncash items	78,000	142,000
Actuarial change in charitable gift annuity obligations	1,072,000	1,318,000
Pension contributions	(5,400,000)	(2,000,000)
Other changes in assets and liabilities:		
Trade receivable, net	(2,574,000)	(294,000)
Inventories and auto test inventory	1,586,000	(1,137,000)
Grants and other receivables	352,000	(467,000)
Deferred promotion	411,000	(543,000)
Prepaid expenses and other current assets	(1,729,000)	(1,318,000)
Other noncurrent assets	1,269,000	(2,551,000)
Accounts payable and accrued liabilities	(1,085,000)	2,600,000
Charitable gift annuity obligation	875,000	657,000
Pension liability	10,012,000	(1,984,000)
Accrued compensation	(100,000)	(45,000)
Unearned subscription revenue	(4,278,000)	7,654,000
Other liabilities	143,000	524,000
Net cash provided by operating activities	<u>11,452,000</u>	<u>36,214,000</u>
Cash flows from capital investments and other investing activities:		
Purchases of property and equipment	(5,304,000)	(6,107,000)
Payments for computer software and development	(5,089,000)	(5,415,000)
Purchase of assets of a business (note 12)	(537,000)	—
Purchase of investments	(365,829,000)	(222,369,000)
Proceeds from sales of investments	<u>362,928,000</u>	<u>194,123,000</u>
Net cash used in capital investments and other investing activities	<u>(13,831,000)</u>	<u>(39,768,000)</u>
Cash flows from financing activities:		
Repayment of long-term debt	—	(47,300,000)
Payments of charitable gift annuity obligations	(594,000)	(521,000)
Proceeds from long-term debt issuance	—	47,300,000
Payment of bond issuance costs	—	(416,000)
Net cash used in financing activities	<u>(594,000)</u>	<u>(937,000)</u>
Net decrease in cash	(2,973,000)	(4,491,000)
Cash at beginning of year	<u>19,729,000</u>	<u>24,220,000</u>
Cash at end of year	\$ <u><u>16,756,000</u></u>	\$ <u><u>19,729,000</u></u>
Supplemental cash flow information:		
Cash paid for interest	\$ 1,499,000	2,246,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(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.

(b) Basis of Presentation

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of CU and that of Consumers Union Action Fund, Inc. (CUAF), The Truman Avenue Foundation, Inc. (TAFI), and Consumer Media LLC (CML). CUAF is an affiliated organization incorporated in April 2006 as a nonmembership Delaware not-for-profit corporation. CUAF's operations focus on consumer-related grassroots legislative campaigns and it is recognized by the Internal Revenue Service (IRS) as a tax-exempt organization under Section 501(c)(4) of the Code. TAFI is an affiliated Section 501(c)(3) not-for-profit corporation. It was incorporated in Delaware in September 2006 and is a supporting organization under Section 509(a)(3) of the Code; its sole member and "supported organization" is Consumers Union. 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 website, 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.

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 loss, unrealized loss on an interest rate swap, loss from a write-off of bond issuance costs, an adjustment to pension liability, and a loss on curtailment of the management pension plan.

In the consolidated statements of functional expenses for the years ended May 31, 2009 and 2008, 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, 2009 and 2008

(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 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 \$6,601,000 and \$6,342,000 at May 31, 2009 and 2008, respectively. As of May 31, 2009, trade receivables primarily consist of receivables from subscriptions (42%), newsstand sales (56%), and mailing list rental sales (2%). The large concentration of receivables related to the newsstand sales is primarily due to the termination of the relationship with a newsstand distributor. Based on the termination of the agreement, the newsstand distributor is allowed to withhold final payments until 180 days after the last issue that they distribute for CU is off the newsstand. The amount of receivables for this distributor was \$5,672,000 as of May 31, 2009. CU collected payment of the net amount owed to this distributor on August 12, 2009 less a \$250,000 holdback for unknown contingencies to be paid in September.

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, the Organization received \$233,000 in awards that are included in other revenue and support in the accompanying consolidated statements of activities. No awards were received in 2009.

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 American Institute of Certified Public Accountants (AICPA) Statement of Position (SOP) No. 93-7, *Reporting on Advertising Costs* (SOP 93-7). In accordance with Statement of Financial Accounting Standards (SFAS) No. 153, *Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 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, 2009 and 2008, the fair value of the names owed on exchange amounted to \$319,000 and \$321,000, respectively, and is included in accounts payable and accrued liabilities on the consolidated balance sheets.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(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 26 months. 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, 2009 and 2008, approximately \$30,334,000 and \$30,745,000, 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 \$32,365,000 and \$31,987,000 in 2009 and 2008, respectively. During the year ended May 31, 2009, CU recorded a write-down of deferred promotion asset to net realizable value in the amount of \$304,000. There were no write-downs of deferred promotion assets in 2008.

(e) *Investments*

Investments at May 31, 2009 and 2008 consist of U.S. Treasury, mortgage-backed securities, and debt and equity commingled trust funds. Investments are stated at fair market value based upon quoted market prices except for the fair values of institutional mutual 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 SFAS No. 157, *Fair Value Measurements* (SFAS 157), as discussed in note 1(n). Certain investments have withdrawal parameters and the amount that CU is unable to withdraw within twelve months from the balance sheet date is classified as long-term. Gains and losses, including unrealized amounts, are included in the accompanying consolidated statements of activities.

(f) *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 and is valued based upon the present value of the discounted expected future cash flows with the swap counter-party according to SFAS 157 as discussed in note 1(n).

(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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(h) Auto Test Inventory

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

(i) Property and Equipment

Property and equipment are stated at cost. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. The estimated useful life of buildings is 30 years; furniture, fixtures, and equipment is 3 to 5 years; and capitalized computer software is 3 years. Leasehold improvements are depreciated straight line 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 SOP No. 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.

(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

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

compliance with all states' requirements. Gains and losses, including unrealized amounts, under this program are reported within investment loss, 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 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 by an independent appraisal 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 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

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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 sheets. There were no impairments in 2009 and 2008.

(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 the provisions of Financial Accounting Standards Board Interpretation (FASB) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). 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 standard did not have any impact on the consolidated financial statements for the year ended May 31, 2008.

On June 1, 2008, the Organization adopted the provisions of SFAS 157 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. SFAS 157 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. SFAS 157 also establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS 157-2, the Organization has not applied the provisions of SFAS 157 to the initial measurement of intangible assets acquired in a business combination (note 12) that have been recognized or disclosed at fair value for the year ended May 31, 2009.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

SFAS 157 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 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 will be required to apply the provisions of SFAS 157 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. The Organization is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3 clarifies the application of SFAS 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Organization has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values during 2009 and has determined that it does not own any financial instruments where the market for the instrument is not active.

The fair values of the financial instruments as of May 31, 2009 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 footnotes 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 SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 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 SFAS 159 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,

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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 2008 reported amounts to conform to the 2009 presentation.

(2) Temporarily Restricted Net Assets

Temporarily restricted net assets were \$7,893,000 and \$10,578,000 as of May 31, 2009 and 2008, respectively, and consist of the following:

	<u>2009</u>	<u>2008</u>
Split-interest agreements	\$ 543,000	725,000
Bequest receivable	1,914,000	3,885,000
Grantor-imposed purpose restrictions	<u>5,436,000</u>	<u>5,968,000</u>
	<u>\$ 7,893,000</u>	<u>10,578,000</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 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. In 2009, the fair market value of the property using Level 2 inputs according to the fair value hierarchy of FAS 157 decreased to \$820,000 and the value of the liabilities decreased by \$56,000. The net decrease of \$162,000 was recorded as a change in value of split-interest agreements in the accompanying consolidated statements of activities for the year ended May 31, 2009.

CU entered into one CRUT with donors during 2009 and one CRUT in 2008. Initial trust assets of \$111,000 and \$676,000 and liabilities to donors of \$46,000 and \$545,000 were recognized in 2009 and 2008, respectively, and are included in other assets and other liabilities, respectively, in the consolidated balance sheets as of May 31, 2009 and 2008. In relation to these arrangements, CU recorded \$65,000 and \$140,000 of temporarily restricted contribution revenue offset by a decrease of \$85,000 and \$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 years ended May 31, 2009 and 2008, respectively. As of May 31, 2009, there was \$1,350,000 in CRUT assets that were presented at fair value using Level 1 inputs according to the fair value hierarchy of FAS 157.

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

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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. Both the second payment of \$685,000 and the liquidation payment of \$1,383,000 was received and recorded as assets released from restriction in the accompanying consolidated statements of activities for the year ending May 31, 2009. The liquidation payment was greater than the estimate and the additional \$84,000 was recorded as unrestricted contribution revenue for the year ending May 31, 2009. 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 \$1,914,000 and \$3,885,000, net of a present value discount of \$127,000 and \$353,000, was recognized as of May 31, 2009 and 2008, respectively. The short-term portion of the bequest receivable of \$685,000 is included in grants and other receivables and the long-term portion of \$1,229,000, net of present value discount, is included in other assets in the accompanying consolidated balance sheet as of May 31, 2009. 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, 2009 and 2008 are available for the following purposes:

	<u>2009</u>	<u>2008</u>
Best Buy Drugs (a)	\$ 3,441,000	4,024,000
Health Care Reform (b)	485,000	212,000
Community Health Assets (c)	352,000	—
Communication Rights Center (d)	200,000	—
Web and Emerging Payments (e)	179,000	251,000
California Endowment (f)	163,000	—
Democratic Pluralism (g)	141,000	252,000
Healthy Heart (h)	129,000	—
Best Buy Drugs Magazine (i)	85,000	393,000
Consumer Advocacy (j)	74,000	144,000
Hear Us Now (k)	—	196,000
Best Buy Drugs (l)	—	116,000
Other grants outstanding less than \$100,000 individually	187,000	380,000
	<u>\$ 5,436,000</u>	<u>5,968,000</u>

- (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 for CU to advocate for policies that advance the interests of consumers in the current healthcare reform debate.
- (c) Represents a grant received for the final core support for the Community Health Assets Project to stimulate new philanthropic resources for health advocacy work, and to ensure accountability of health care conversion foundations.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

- (d) Represents a grant received for support for the Communications Rights Center to conduct outreach and collaborative work promoting democratic communications platforms and diverse media outlets protecting human rights and democratic institutions.
- (e) 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.
- (f) Represents a grant received to coordinate a broad-based coalition that seeks to advance the role of consumers in the comprehensive health care reform movement in California.
- (g) Represents a grant received by CU for continued support of Democratic Pluralism in Media project.
- (h) Represents a grant received to popularize and communicate nationally developed, evidence-based guidelines to consumers for clinical preventative services for heart and vascular diseases.
- (i) 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.
- (j) Represents a court-ordered payment received by CU to support CU's national consumer advocacy work.
- (k) 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.
- (l) Represents a grant received by CU to provide readily accessible, unbiased, evidence-based information about drug value.

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 \$1,547,000 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, 2009. The portion expected to be collected beyond the next fiscal year is \$2,110,000, net of a discount of \$224,000, and is included in other assets on the accompanying consolidated balance sheet as of May 31, 2009. The long-term receivable portion is discounted at 6%. The receivables exceed the restricted fund balance by \$216,000 related to grant-incurred expenses that have been incurred and billed to the grantor, but the Organization has not received payment by May 31, 2009.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(3) Inventories

Inventories at May 31, 2009 and 2008 consist of the following:

	2009	2008
Paper	\$ 1,901,000	3,196,000
Books in process	34,000	3,000
Published books	301,000	495,000
	\$ 2,236,000	3,694,000

(4) Property and Equipment

Property and equipment at May 31, 2009 and 2008 consist of the following:

	2009	2008
Land	\$ 11,935,000	11,935,000
Buildings and building improvements	64,452,000	60,830,000
Furniture, fixtures, and equipment	32,057,000	30,412,000
Capitalized computer software	32,797,000	27,707,000
	141,241,000	130,884,000
Less accumulated depreciation and amortization	75,359,000	65,659,000
Net property and equipment	\$ 65,882,000	65,225,000

Depreciation and amortization expense for the years ended May 31, 2009 and 2008 was \$9,736,000 and \$8,389,000, respectively. At May 31, 2009 and 2008, capitalized computer software was \$11,537,000 and \$12,083,000, respectively, net of accumulated amortization of \$21,260,000 and \$15,624,000, respectively. Amortization expense for capitalized computer software was \$5,636,000 and \$4,608,000 in 2009 and 2008, 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 debt and equity commingled trust funds. All of CU's investments were fair valued as of May 31, 2009 using Level 2 inputs in the fair value hierarchy according to SFAS 157. No investments were valued using Level 1 or Level 3 inputs.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

The fair value of investments as of May 31, 2009 and 2008 consists of the following:

	<u>2009</u>	<u>2008</u>
Equity and debt securities – commingled trust funds	\$ 104,268,000	146,193,000
Mortgage-backed securities	28,172,000	33,223,000
U.S. Treasury securities	24,493,000	18,912,000
	<u>\$ 156,933,000</u>	<u>198,328,000</u>

Investment loss included in the consolidated statements of activities for the years ended May 31, 2009 and 2008 was composed of:

	<u>2009</u>	<u>2008</u>
Investment and dividend income	\$ 6,591,000	6,858,000
Net unrealized losses	(45,552,000)	(8,295,000)
Net realized gains	1,256,000	728,000
Investment expenses	(377,000)	(305,000)
	<u>\$ (38,082,000)</u>	<u>(1,014,000)</u>

Some of the investments in commingled trust funds engage in securities lending programs to obtain additional income. The investment market decline in 2009 caused a decrease in the value of such funds that perform lending securities. In order to protect investors and ensure that the collateral pool can maintain a high degree of liquidity, the custodian placed withdrawal restrictions on the funds that perform securities lending. Withdrawal requests from each affected fund will be limited to a per month maximum of between 2% and 4% of an account's net asset value in that fund at the time of the redemption request. The right to withdraw accumulates over time at either 2% or 4% per month. CU has determined that \$19,502,000 is the amount of investments that cannot be withdrawn until after twelve months past the consolidated balance sheet date and should be classified as a long-term asset.

	<u>2009</u>	<u>2008</u>
Investments classified as short-term	\$ 137,431,000	198,328,000
Investments classified as long-term	19,502,000	—
	<u>\$ 156,933,000</u>	<u>198,328,000</u>

The investment policy statement governing CU's corporate investment portfolio reflects a target asset allocation of 35% fixed income, 50% domestic equity, and 15% international equity, 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 Intermediate Aggregate Index. Equity holdings are invested in broadly diversified commingled trust funds that employ an index replication approach.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(6) Employee Benefits

(a) Defined Benefit Plan

CU maintains three defined benefit plans covering a majority of its employees during 2009 and 2008. 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 benefits for all union employees (the Guild Plan). Contributions for the Guild Plan and the related expense recognized were \$103,000 and \$95,000 in 2009 and 2008, respectively.

The measurement date used to determine pension benefit measures for the Management Plan and the Union Plan is May 31, 2009.

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, *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 the funded status of defined benefit pension and other postretirement plans as a net asset or liability on their balance sheets.

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 SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS 88).

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. The amount in the adjustment to unrestricted net assets as of May 31, 2009 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a \$1,057,000 actuarial loss. 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, 2009 and 2008

(b) Obligations and Funded Status

At May 31:

	Pension benefits	
	2009	2008
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	\$ 75,399,000	80,865,000
Service cost	3,870,000	4,061,000
Interest cost	5,138,000	4,818,000
Change in actual/projected compensation	—	1,956,000
Actuarial (gain) loss	5,946,000	(2,172,000)
Benefits and administrative expenses paid	(5,027,000)	(8,606,000)
Change in discount rate	(3,788,000)	(5,523,000)
Change due to curtailment of Management Plan	(6,336,000)	—
Projected benefit obligation at the end of year	<u>75,202,000</u>	<u>75,399,000</u>
Change in plan assets:		
Fair value of plan assets at the beginning of year	69,893,000	75,976,000
Actual return on plan assets	(11,373,000)	250,000
Employer contributions	5,400,000	2,000,000
Benefits and administrative expenses paid	(5,027,000)	(8,333,000)
Fair value of assets at the end of year	<u>58,893,000</u>	<u>69,893,000</u>
Funded status	<u>\$ (16,309,000)</u>	<u>(5,506,000)</u>

The accumulated benefit obligation for all defined benefit pension plans was \$66,502,000 and \$61,890,000 at May 31, 2009 and 2008, 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, 2009 and 2008, as provided by CU's actuaries, were as follows:

	2009	2008
Funded status:		
Accumulated benefit obligation	\$ <u>66,502,000</u>	<u>61,890,000</u>
Projected benefit obligation	\$ 75,202,000	75,399,000
Fair value of plan assets available for benefits	<u>58,893,000</u>	<u>69,893,000</u>
Funded status	<u>\$ (16,309,000)</u>	<u>(5,506,000)</u>

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

	Management Plan	
	2009	2008
Funded status:		
Accumulated benefit obligation	\$ 35,199,000	32,305,000
Projected benefit obligation	\$ 35,199,000	37,979,000
Fair value of plan assets available for benefits	30,902,000	37,744,000
Funded status	\$ (4,297,000)	(235,000)

	Union Plan	
	2009	2008
Funded status:		
Accumulated benefit obligation	\$ 31,302,000	29,585,000
Projected benefit obligation	\$ 40,003,000	37,420,000
Fair value of plan assets available for benefits	27,991,000	32,149,000
Funded status	\$ (12,012,000)	(5,271,000)

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, 2009 and 2008, as provided by CU's actuaries, were as follows:

	2009	2008
Amounts recognized in the consolidated balance sheet consist of:		
Noncurrent liabilities	\$ (16,309,000)	(5,506,000)
Total	\$ (16,309,000)	(5,506,000)
Amounts recognized as an adjustment to unrestricted net assets consist of:		
Unrecognized prior service cost	\$ —	1,187,000
Unrecognized actuarial loss	28,418,000	17,219,000
Total adjustment to unrestricted net assets	\$ 28,418,000	18,406,000

The change of the adjustment to unrestricted net assets of the plans resulted in a \$10,012,000 decrease and 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 years ended May 31, 2009 and 2008, respectively.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2009 and 2008 measurement dates were as follows:

	<u>2009</u>	<u>2008</u>
Discount rate:		
Management Plan (pre-retirement)/(postretirement)	7.25% / 7.25%	6.90% / 6.90%
Union Plan (pre-retirement)/(postretirement)	7.70 / 7.70	7.05 / 7.05
Future salary increases:		
Management Plan	N/A	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. 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 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</u>
Service cost	\$ 3,870,000	4,061,000
Interest cost	5,138,000	4,818,000
Expected return on plan assets	(5,028,000)	(5,320,000)
Amortization of prior service cost	129,000	129,000
Amortization of unrecognized transition obligation	796,000	—
Amortization of net loss	229,000	913,000
Net periodic benefit cost	<u>\$ 5,134,000</u>	<u>4,601,000</u>

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

The weighed average assumptions used to determine net periodic benefit cost for the years 2009 and 2008 were as follows:

	<u>2009</u>	<u>2008</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
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

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.

(c) **Plan Assets**

The weighted average asset allocation of CU's pension assets at May 31, 2009 and 2008 were as follows:

	<u>Management Plan Assets</u>	
	<u>2009</u>	<u>2008</u>
Asset category:		
U.S. equities	36.3%	44.5%
International equities	8.7	11.4
Debt securities	55.0	44.1
Total	<u>100.0%</u>	<u>100.0%</u>
	<u>Union Plan Assets</u>	
	<u>2009</u>	<u>2008</u>
Asset category:		
U.S. equities	37.8%	44.9%
International equities	10.2	12.4
Debt securities	49.0	41.5
Other (money market)	3.0	1.2
Total	<u>100.0%</u>	<u>100.0%</u>

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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, 2009 and 2008 does not adhere to the target allocation as recent as a result of the market decline in addition to 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, 2009 and 2008 adheres to the target allocation.

(d) *Cash Flows*

CU expects to contribute \$1,100,000 to the Management Plan and \$3,300,000 to the Union Plan for the fiscal year ending May 31, 2010.

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

	<u>Management Plan</u>	<u>Union Plan</u>
Year:		
2010	\$ 7,171,000	5,506,000
2011	2,295,000	1,411,000
2012	3,295,000	1,224,000
2013	3,356,000	2,121,000
2014	2,446,000	3,014,000
2015 – 2019	12,297,000	17,021,000

The expected benefits are based on the same assumptions used to measure CU's benefits obligation at May 31, 2009 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. In addition, for management/exempt

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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 \$2,416,000 and \$2,299,000 in 2009 and 2008, 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 \$89,000 and \$71,000 in 2009 and 2008, respectively.

(7) Commitments and Contingencies

(a) Leases

CU leases office facilities and certain equipment for which rental expense was \$577,000 and \$634,000 in fiscal years 2009 and 2008, 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 9 years. Minimum lease payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent.

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

Year:	
2010	\$ 540,000
2011	495,000
2012	326,000
2013	318,000
2014	325,000
2015 and thereafter	763,000
	<hr/>
	\$ 2,767,000
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(b) Legal Proceedings

The Organization is the defendant in a few 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(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. The average auction rate for 2008 was 4.2%. 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. 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.

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 2009 was 1.4%. 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.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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:	
2010	\$ —
2011	1,125,000
2012	1,175,000
2013	1,200,000
2014	1,250,000
2015 to 2036	<u>42,550,000</u>
	\$ <u><u>47,300,000</u></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, 2009 and 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 2009 and 2008 was \$1,791,000 and \$2,339,000, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities. The average interest rate on all outstanding debt was 3.8% and 4.9% for the fiscal years ended May 31, 2009 and 2008, respectively.

(9) Bank Borrowings

CU has an unused line of credit totaling \$10,000,000 at May 31, 2009. 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, 2009 and 2008, 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. 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

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

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 1.0% to 4.0% based on the length of time the letter of credit contained an outstanding balance. As of May 31, 2009 and 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 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 to 3.67%, payable monthly effective December 1, 2008, on the first day of each month until the termination date. The rate in effect commencing February 1, 2006 was previously 3.65%. 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. The effect of this amendment is included in the liability under derivative instrument on the consolidated balance sheets as of May 31, 2009 and the unrealized loss on interest rate swap on the statements of activities for the year ending May 31, 2009.

As of May 31, 2009 and 2008, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under SFAS 157, including the amendment, is \$(4,210,000) and \$(1,227,000), 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 \$6,916,000 and \$8,400,000 at May 31, 2009 and 2008, respectively. The Organization's liability associated with CGAs was \$7,235,000 and \$5,882,000, utilizing discount rates of 2.4% and 3.2% at May 31, 2009 and 2008, respectively. During 2009 and 2008, respectively, CU recognized \$589,000 and \$494,000 in unrestricted contribution revenue attributable to new CGAs, which was offset by \$1,072,000 and \$1,318,000 associated with the changes in the present value of the related liability.

CONSUMERS UNION OF UNITED STATES, INC.

Notes to Consolidated Financial Statements

May 31, 2009 and 2008

(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 Website, www.consumerist.com. The purchased Website's target audience is a younger demographic than what the Organization currently reaches. The aggregate purchase price was \$600,000 of which \$500,000 was paid in cash with the remaining \$100,000 to be paid 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 will be amortized over three years. The amortization period is an estimate based on the current estimated life of technology-based assets, consistent with the useful life of software and Website development costs. Amortization expense of \$89,000 was recorded for the year ended May 31, 2009 and the remaining intangible balance of \$548,000 is included in other assets in the accompanying consolidated balance sheets. Amortization of intangible assets will be \$212,000, \$212,000, and \$124,000 for the years ending May 31, 2010, 2011, and 2012, respectively.

(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 vice president of the board of directors of CI. Membership expense was \$843,000 and \$805,000 for the years ended May 31, 2009 and 2008, respectively, and was included in consumer advocacy and education on the accompanying consolidated statements of activities. Membership payments were \$843,000 and \$755,000 for the years ended May 31, 2009 and 2008, 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 2009 and 2008, CU also paid ICRT membership fees of \$79,000 and \$132,000, respectively. In 2009 and 2008, CU made payments of \$98,000 and \$386,000, respectively, for certain product testing results. Additionally, CU received \$581,000 and \$192,000 during 2009 and 2008, 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.