Consumer Reports

CONSUMERS UNION OF UNITED STATES, INC.

(d/b/a Consumer Reports)

Consolidated Financial Statements

May 31, 2016 and 2015

(With Independent Auditors' Report Thereon)

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

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Consumers Union of United States, Inc., d/b/a Consumer Reports, which comprise the consolidated balance sheets as of May 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumers Union of United States, Inc., d/b/a Consumer Reports, as of May 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 23, 2016

CONSUMERS UNION OF UNITED STATES, INC.
(d/b/a Consumer Reports)

Consolidated Balance Sheets

May 31, 2016 and 2015

Assets		2016	2015
Current assets:			
Cash and cash equivalents	$	15,487,000	25,115,000
Investments (note 5)		291,563,000	300,675,000
Trade receivables, net		6,087,000	6,055,000
Inventories (note 3)		1,188,000	1,504,000
Auto test inventory		2,090,000	2,014,000
Grants and other receivables		3,732,000	2,845,000
Deferred promotion cost		15,876,000	16,114,000
Prepaid expenses and other current assets		7,394,000	8,822,000
Total current assets		343,417,000	363,144,000
Property and equipment, net (note 4)		58,294,000	57,607,000
Deferred promotion cost – long term		1,962,000	2,152,000
Other assets (notes 2 and 8)		2,975,000	3,291,000
Grants receivable – long term (note 2)		764,000	1,724,000
Total assets	$	407,412,000	427,918,000
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	12,805,000	14,076,000
Accrued compensation		15,245,000	9,792,000
Unearned subscription revenue		101,605,000	110,413,000
Current portion of long-term debt (note 8)		1,350,000	1,300,000
Total current liabilities		131,005,000	135,581,000
Unearned subscription revenue – long term		35,939,000	35,166,000
Liability under derivative instrument (note 10)		7,381,000	6,691,000
Long-term debt (note 8)		39,900,000	41,250,000
Pension obligation (note 6)		33,871,000	24,275,000
Other liabilities (note 11)		16,332,000	14,671,000
Total liabilities		264,428,000	257,634,000
Net assets:			
Unrestricted		135,327,000	161,419,000
Temporarily restricted (note 2)		7,657,000	8,865,000
Total net assets		142,984,000	170,284,000
Total liabilities and net assets	$	407,412,000	427,918,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.
(d/b/a Consumer Reports)

Consolidated Statements of Activities

Years ended May 31, 2016 and 2015

	2016	2015
Change in unrestricted net assets:		
Operating:		
Revenue and support:		
Subscriptions, newsstand, and other sales	$ 214,397,000	230,198,000
Contributions	28,874,000	27,278,000
Net assets released from restrictions	3,830,000	5,017,000
Other	566,000	539,000
Total revenue and support	247,667,000	263,032,000
Operating expenses:		
Publication, promotion, and marketing expenses:		
Content development	87,713,000	90,662,000
Production and distribution	45,077,000	46,165,000
Promotion and marketing	62,147,000	67,959,000
	194,937,000	204,786,000
Consumer advocacy and education	15,890,000	16,368,000
General and administrative (notes 4 and 12)	32,869,000	23,829,000
Fundraising	9,915,000	9,805,000
Total operating and other expenses	253,611,000	254,788,000
Total operating (loss) income	(5,944,000)	8,244,000
Nonoperating:		
Investment (loss) return, net (note 5)	(8,895,000)	7,248,000
Unrealized loss on interest rate swap (note 10)	(690,000)	(973,000)
Change in value of split-interest agreements (note 11)	(501,000)	(2,917,000)
Pension-related changes other than net periodic pension cost (note 6)	(10,062,000)	(7,241,000)
Total nonoperating loss	(20,148,000)	(3,883,000)
(Decrease) increase in unrestricted net assets	(26,092,000)	4,361,000
Change in temporarily restricted net assets:		
Grants received (note 2)	2,513,000	3,958,000
Net assets released from restrictions	(3,830,000)	(5,017,000)
Contribution revenue – other	105,000	126,000
Change in value of split-interest agreements (note 2)	4,000	(5,000)
Decrease in temporarily restricted net assets	(1,208,000)	(938,000)
(Decrease) increase in net assets	(27,300,000)	3,423,000
Net assets at beginning of year	170,284,000	166,861,000
Net assets at end of year	$ 142,984,000	170,284,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.
(d/b/a Consumer Reports)

Consolidated Statements of Functional Expenses

Years ended May 31, 2016 and 2015

	2016					2015				
	Publication, promotion, and marketing	**Consumer advocacy and education**	**General and administrative**	**Fundraising**	**Total**	**Publication, promotion, and marketing**	**Consumer advocacy and education**	**General and administrative**	**Fundraising**	**Total**
Salaries, employee benefits, and payroll taxes	$ 67,776,000	8,941,000	14,122,000	2,323,000	93,162,000	65,193,000	8,796,000	11,632,000	2,498,000	88,119,000
Printing and publications	29,627,000	115,000	435,000	2,531,000	32,708,000	33,913,000	160,000	427,000	2,309,000	36,809,000
Postage and shipping	33,341,000	150,000	79,000	4,033,000	37,603,000	36,803,000	176,000	96,000	3,956,000	41,031,000
Sales and marketing	30,593,000	812,000	—	672,000	32,077,000	32,870,000	842,000	—	566,000	34,278,000
Product testing	3,497,000	—	—	—	3,497,000	4,241,000	10,000	—	—	4,251,000
Professional fees	10,535,000	2,266,000	3,279,000	46,000	16,126,000	12,957,000	1,980,000	2,430,000	137,000	17,504,000
Insurance	—	—	1,054,000	—	1,054,000	—	—	1,063,000	—	1,063,000
Fees, licenses, and permits	1,723,000	10,000	42,000	11,000	1,786,000	1,515,000	28,000	61,000	10,000	1,614,000
Occupancy	2,164,000	837,000	289,000	35,000	3,325,000	2,345,000	856,000	294,000	36,000	3,531,000
Grants and awards	—	166,000	—	—	166,000	—	557,000	—	—	557,000
Supplies	562,000	80,000	400,000	8,000	1,050,000	733,000	72,000	345,000	12,000	1,162,000
Telephone	461,000	74,000	75,000	9,000	619,000	366,000	102,000	57,000	7,000	532,000
Travel	909,000	480,000	219,000	18,000	1,626,000	1,006,000	490,000	216,000	33,000	1,745,000
Meetings and conferences	191,000	70,000	147,000	4,000	412,000	181,000	90,000	90,000	5,000	366,000
Dues and subscriptions	328,000	1,149,000	46,000	1,000	1,524,000	494,000	1,096,000	59,000	3,000	1,652,000
Interest (note 8)	—	—	1,310,000	—	1,310,000	—	—	1,353,000	—	1,353,000
Depreciation and amortization (note 4)	9,580,000	551,000	707,000	72,000	10,910,000	8,807,000	657,000	755,000	66,000	10,285,000
Sales tax	86,000	—	—	—	86,000	93,000	—	—	—	93,000
Write-down of deferred promotion costs (note 12)	—	—	—	—	—	—	—	625,000	—	625,000
Severance (note 12)	—	—	9,220,000	—	9,220,000	—	—	3,317,000	—	3,317,000
Other expenses	3,564,000	189,000	1,445,000	152,000	5,350,000	3,269,000	456,000	1,009,000	167,000	4,901,000
Total	$ 194,937,000	15,890,000	32,869,000	9,915,000	253,611,000	204,786,000	16,368,000	23,829,000	9,805,000	254,788,000

See accompanying notes to consolidated financial statements.

CONSUMERS UNION OF UNITED STATES, INC.
(d/b/a Consumer Reports)

Consolidated Statements of Cash Flows

Years ended May 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (27,300,000)	3,423,000
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,910,000	10,285,000
Amortization of bond issuance costs	21,000	21,000
Pension-related changes other than net periodic pension cost	10,062,000	7,241,000
Net unrealized loss (gain) on investments	17,441,000	(5,226,000)
Net realized gain on investments	(8,503,000)	(1,773,000)
Unrealized loss on interest rate swap	690,000	973,000
Change in value of split-interest agreements	(4,000)	5,000
Pension expense	3,574,000	2,040,000
Loss on disposal of property and equipment	282,000	166,000
Other noncash items	(93,000)	65,000
Actuarial change in charitable gift annuity obligations	501,000	2,917,000
Pension contributions	(4,039,000)	(4,180,000)
Other changes in assets and liabilities:		
Trade receivable, net	(32,000)	(266,000)
Inventories and auto test inventory	240,000	833,000
Grants and other receivables	73,000	598,000
Deferred promotion cost	428,000	(510,000)
Prepaid expenses and other current assets	1,428,000	(611,000)
Other noncurrent assets	156,000	54,000
Accounts payable and accrued liabilities	(1,249,000)	2,011,000
Accrued compensation	5,453,000	(118,000)
Unearned subscription revenue	(8,035,000)	(4,891,000)
Other liabilities	1,373,000	(112,000)
Net cash provided by operating activities	3,377,000	12,945,000
Cash flows from capital investments and other investing activities:		
Purchases of property and equipment	(3,428,000)	(4,904,000)
Payments for computer software and development	(8,451,000)	(5,503,000)
Purchase of investments	(25,483,000)	(86,897,000)
Proceeds from sales of investments	25,657,000	86,854,000
Net cash used in capital investments and other investing activities	(11,705,000)	(10,450,000)
Cash flows from financing activities:		
Repayment of long-term debt	(1,300,000)	(1,250,000)
Net cash used in financing activities	(1,300,000)	(1,250,000)
Net (decrease) increase in cash and cash equivalents	(9,628,000)	1,245,000
Cash and cash equivalents at beginning of year	25,115,000	23,870,000
Cash and cash equivalents at end of year	$ 15,487,000	25,115,000
Supplemental data:		
Cash paid for interest	$ 1,289,000	1,332,000
Cash paid for taxes	520,000	468,000
Donated securities	363,000	118,000

See accompanying notes to consolidated financial statements.

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

Consumers Union of United States, Inc., d/b/a Consumer Reports (CR or the Organization) is the publisher of *Consumer Reports* and ConsumerReports.org, as well as other periodicals, publications, and consumer services. CR is a not-for-profit organization 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. 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 CR 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 CR. TAFI's operations focus on holding contributed investment property. CML is a not-for-profit Delaware limited liability company whose sole member is CR. CML owns a consumer education Web site, consumerist.com. All intercompany balances and transactions have been eliminated in consolidation.

Net assets, revenue, 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 CR or by the passage of time.

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

In the consolidated statements of functional expenses for the years ended May 31, 2016 and 2015, information technology and facilities costs are allocated in the functional expense categories based on a percentage of the square foot usage of the Organization's facilities.

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

(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 current unearned subscription revenue, and the portion of the subscription services in excess of one year is classified as unearned subscription revenue – long term. Commission expense related to the sales of subscriptions is also recognized over the applicable terms of the subscription service. Deferred commission expense to be recognized within one year of $1,898,000 and $2,423,000 is included in prepaid expenses and other current assets for the years ended May 31, 2016 and 2015, respectively. Deferred commission expense to be recognized in excess of one year of $1,065,000 and $1,166,000 is included in other assets for the years ended May 31, 2016 and 2015, respectively.

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

Trade receivables are based on invoiced amounts, net of an estimated allowance for cancellations and nonpayment. This allowance is based on historical experience and was approximately $4,381,000 and $3,980,000 at May 31, 2016 and 2015, respectively. As of May 31, 2016, trade receivables primarily consist of receivables from subscriptions (52%), newsstand sales (23%), referral fees (11%), and other sales (14%). The Organization does not have any off-balance-sheet credit exposure related to its customers.

(d) Deferred Promotion Cost

CR 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 Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 340-20, *Capitalized Advertising Costs*. These costs are amortized over the periods of the subscriptions generated from these promotions, not to exceed 20 months. Deferred promotion costs to be amortized within one year are included as current deferred promotion cost, and the portion of the deferred promotion costs to be amortized in excess of one year is classified as deferred promotion cost – long term. At May 31, 2016 and 2015, $17,838,000 and $18,266,000, 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 $23,656,000 and $23,657,000 in 2016 and 2015, respectively. There was a write-down of deferred promotion assets in 2015 of $625,000 and no write-downs of deferred promotion assets in 2016. The write-down in 2015 related to CR’s decision to cease publishing *Money Adviser* beyond the August 2015 issue. With no future revenue flow, the related deferred promotion costs were deemed no longer recoverable. Total advertising and promotion expenses recognized are $62,147,000 and $67,959,000 in 2016 and 2015, respectively. Such amounts represent management and general activities of CR.

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(e) Cash and Cash Equivalents

CR considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(f) Investments

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

(g) Derivative Instruments

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

(h) Inventories

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

(i) Auto Test Inventory

Auto test inventory represents automobiles used in CR’s testing processes, reported at the lower of cost less depreciation or their estimated recoverable value. Costs for other test projects are charged to expense when incurred.

(j) Property and Equipment

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

In accordance with the Subsections of FASB ASC Subtopic 350-40, *Intangibles–Goodwill and Other Internal-Use Software*, and FASB ASC Subtopic 350-50, *Intangibles–Goodwill and Other Website*

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Development Costs, CR 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.

(k) Contributions

CR 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. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Organization records the contribution as unrestricted.

(l) Split-Interest Agreements

The Organization receives contributions of various types of split-interest agreements, including charitable gift annuities (CGA) and charitable remainder unitrusts (CRUTs). Under the CGA program, donors contribute cash to CR in exchange for a promise by CR to pay an annuity for the life of the donor or other beneficiaries. CR 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 requirements under various state laws, CGA investments within certain states have limitations on the amount of equities contained in the respective portfolio. The Organization's CGA investments are in compliance with all states' requirements. Gains and losses, including unrealized amounts, under this program are reported within investment return, net in the accompanying consolidated statements of activities. The annuity payment liability, which is considered Level 3 in the fair value hierarchy, is recognized and subsequently revalued at the actuarially determined present value of future cash flows expected to be paid to the donor. The Applicable Federal Rate, also known as the IRS Discount Rate, is the discount rate used in determining the present value. Contribution revenue, which is the difference between these two amounts, is reported within contributions in CR'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, CR will receive the assets remaining in the trust. The distributions to the beneficiaries are for a specified percentage of the trust's fair value as determined annually. Obligations to the beneficiaries are limited to the trust's assets. For CRUTs where CR 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 CR's accompanying consolidated statements of activities. For CRUTs where CR is not the trustee, the beneficial interest in the trust is recorded as a long-term receivable and

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temporarily restricted revenue in CR's accompanying consolidated statements of activities. CRUT assets are adjusted to fair value at each subsequent consolidated balance sheet date, and they consist of equity and debt securities, which are measured using quoted market prices. Subsequent changes in the fair value of the trust assets or the present value of the liability to beneficiaries are recorded as changes in value of split-interest agreements in temporarily restricted net assets in the accompanying consolidated statements of activities. The funds are classified as temporarily restricted until the termination of the trust when they become unrestricted.

(m) Impairment of Long-Lived Assets

In accordance with impairment or disposal of long-lived assets subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment–Overall*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments in 2016 and 2015.

(n) Use of Estimates

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

(o) Fair Value Measurements

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

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

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

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the "Investments reported at NAV" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

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

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

In June 2015, the FASB issued ASU 2015-10, *Technical Corrections and Improvements*, that addresses a variety of matters including a refinement of the definition of an equity security that has a readily determinable fair value. Paragraph 30 of the ASU amends the master glossary term, *readily determinable fair value*, in part as follows: An equity security has a readily determinable fair value if it meets any of the following conditions…(c) The fair value of an equity security that is an investment in a mutual fund or in a structure similar to a mutual fund (that is, a limited partnership or a venture capital entity) is readily determinable if the fair value per share (unit) is determined and published and is the basis for current transactions. Paragraph 30 of the ASU became effective upon issuance. The Organization has adopted this provision of ASU and this refinement has resulted in the revision of certain investments, totaling $188,000,000, held by the Organization from Level 2 to Level 1 of the fair value hierarchy for the year ended May 31, 2016. This refinement has also resulted in the revision of certain investments in the Management Frozen Plan's and Union Frozen Plan's assets, totaling $21,981,000 and $22,610,000, respectively, from Level 2 to Level 1 of the fair value hierarchy for the year ended May 31, 2016. Retrospectively, the Organization revised the 2015 disclosures to conform to fiscal year 2016.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. This update removes the requirement to categorize within the fair value hierarchy all investments for which

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fair value is measured using the net asset value per share practical expedient. CR early adopted this update in 2016. Retrospectively, the Organization changed the 2015 disclosure to conform to fiscal year 2016.

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

(p) Income Taxes

Under the provisions of Section 501(c)(3) of the Internal Revenue Code, CR is exempt from taxes on income, except for unrelated business income. For the years ended May 31, 2016 and 2015, provisions for income taxes were $603,000 and $440,000, respectively.

In accordance with ASC 740, *Income Taxes*, CR evaluated its tax positions and determined that all are more likely than not to be sustained upon examination. Accordingly, CR believes that there are no unrecognized benefits or applicable interest and penalties that should be recorded.

CR's tax returns for the fiscal years ended May 31, 2013, 2014, and 2015 are subject to examination by federal, state, and local authorities.

(q) Reclassifications

Certain reclassifications have been made to the 2015 reported amounts to conform to the 2016 presentation.

(2) Temporarily Restricted Net Assets

Temporarily restricted net assets were $7,657,000 and $8,865,000 as of May 31, 2016 and 2015, respectively, and consist of the following:

		2016	2015
Split-interest agreements	$	584,000	630,000
Donor-imposed purpose restrictions		444,000	372,000
Grantor-imposed purpose restrictions		6,629,000	7,863,000
	$	7,657,000	8,865,000

As of May 31, 2016 and 2015, there were $1,637,000 and $1,782,000, respectively, in CRUT assets that were presented at fair value using Level 1 inputs according to the fair value hierarchy of ASC Topic 820.

CR did not enter into any new CRUT agreements with donors in 2016 and 2015. However, $50,000 was released from restrictions due to the termination of a CRUT in January 2016.

Temporarily restricted net assets due to donor-imposed stipulations are for food safety and sustainability related projects including testing, research, and public education.

Temporarily restricted net assets due to grant-imposed stipulations at May 31, 2016 and 2015 are available for the following purposes:

		2016	2015
Best Buy Drugs (a)	$	1,547,000	2,499,000
Organic marketing and labeling (b)		1,358,000	1,358,000
Health Care Value Hub (c)		935,000	—
Organic Food Safety (d)		441,000	771,000
Health Care Reform (e)		249,000	739,000
Health Care Resource Center (f)		58,000	703,000
Other grants outstanding less than $500,000 individually		2,041,000	1,793,000
	$	6,629,000	7,863,000

(a) Represents an unexpended grant received for the support and enhancement of Consumer Reports Best Buy Drugs. The project is to build a social marketing campaign, intended to reach millions of consumers with unbiased content about prescription drug effectiveness, cost safety, and off-label use. In 2014, a three-year extension of this grant was received in the amount of $3,277,000, of which it is estimated that $764,000 will be received between 12 and 15 months after May 31, 2016 and is recognized as grants receivable – long term in the accompanying consolidated balance sheets.

(b) Represents unexpended amounts received by CR to help protect consumers from false and misleading marking, advertising, and labeling of organic products.

(c) Represents an unexpended grant received to enhance the Health Value Hub for consumer advocates to continue the evidence-based effort to contain health costs and promote value.

(d) Represents unexpended amounts received by CR to advocate for the establishment of consistent standards for organic farmers, educate consumers regarding the use of unapproved synthetic additives in organic milk and other products, fight government directives that would allow the use of synthetics or antibiotics in food classified as organic, and educate consumers about both meaningful and misleading labels.

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

(f) Represents an unexpended grant received to create a resource center for consumer advocates in a sustained, comprehensive, evidenced-based effort to contain health costs and promote value.

(3) Inventories

Inventories at May 31, 2016 and 2015 consist of the following:

		2016	2015
Paper	$	619,000	783,000
Books in process		—	11,000
Published books		569,000	710,000
	$	1,188,000	1,504,000

(4) Property and Equipment

Property and equipment at May 31, 2016 and 2015 consist of the following:

		2016	2015
Land	$	11,935,000	11,935,000
Buildings and improvements		68,445,000	67,587,000
Furniture, fixtures, and equipment		19,115,000	17,264,000
Capitalized computer software		61,745,000	56,259,000
		161,240,000	153,045,000
Less accumulated depreciation and amortization		102,946,000	95,438,000
Net property and equipment	$	58,294,000	57,607,000

Depreciation and amortization expense for the years ended May 31, 2016 and 2015 was $10,910,000 and $10,285,000, respectively. At May 31, 2016 and 2015, capitalized computer software was $11,231,000 and $9,154,000, respectively, net of accumulated amortization of $50,514,000 and $47,105,000, respectively. Amortization expense for capitalized computer software was $6,158,000 and $5,876,000 in 2016 and 2015, respectively.

CR performs reviews of fixed assets to determine if there are assets no longer in service. During the years ended May 31, 2016 and 2015, CR recognized a net loss of $201,000 and $112,000, respectively, for retired assets no longer in service in the consolidated statements of activities in general and administrative expenses.

In February 2016, management decided to replace its current eCommerce system with a new solution, which is intended to reduce the risk of storing credit card numbers, adds system flexibility, and reduces maintenance costs. The portion of the current eCommerce system that was determined to have an estimated life that extended beyond the expected decommission date of the current system was $1,835,000. The estimated useful life of the current system was adjusted to align with the estimated decommission date during fiscal 2017. This resulted in $265,000 of accelerated depreciated expense in fiscal 2016. Subsequent to February 2016, all costs incurred related to the current system were expensed.

(Continued)

(5) Investments

CR's investment policies restrict CR's investments to those issued, collateralized, insured, or guaranteed by the U.S. government, U.S. agencies, or U.S. instrumentalities and other respective branches as well as debt, equity, real estate, and commodity commingled trust funds. The investment policy statement governing CR's corporate investment portfolio is reviewed periodically. The current policy reflects a target asset allocation of 25% fixed income, 30% domestic equity, 25% international equity, 10% Treasury Inflation Protected Securities, 5% real estate, and 5% commodities within a range of 5% of the target percentage. CR's investments are generally invested in broadly diversified commingled trust funds that employ an index replication approach. Commingled funds give the investors the right, subject to predetermined redemption procedures, to redeem their investment at net asset value per share. CR's commingled funds as of May 31, 2016, have daily redemption frequencies (with the exception of International equity – commingled funds, which have semimonthly redemption frequencies and require a redemption notice of 15 days, and the real estate fund, which has quarterly redemption frequencies), with redemption periods of two days or less. There are no redemption restrictions as of May 31, 2016. No investments were valued using Level 3 inputs.

The fair value of investments as of May 31, 2016 and 2015 consists of Level 1 investments (funds traded on an active exchange) and Level 2 investments as follows:

	Level 1	Level 2	Investments reported at NAV[1]	Total
May 31, 2016:				
Equity funds:				
Domestic	$ 94,847,000	—	—	94,847,000
International	657,000	—	61,691,000	62,348,000
Fixed-income funds:				
Bonds	73,902,000	—	—	73,902,000
U.S. Treasury	31,327,000	—	—	31,327,000
Commodities fund	14,213,000	—	—	14,213,000
Real estate fund	—	—	14,000,000	14,000,000
U.S. government agency bonds	—	926,000	—	926,000
Total	$ 214,946,000	926,000	75,691,000	291,563,000

[1] Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the "Investments reported at NAV" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

	Level 1	Level 2	Investments reported at NAV[1]	Total
May 31, 2015:				
Equity funds:				
Domestic	$ 118,150,000	—	—	118,150,000
International	742,000	—	57,463,000	58,205,000
Fixed-income funds:				
Bonds	72,876,000	—	—	72,876,000
U.S. Treasury	30,983,000	—	—	30,983,000
Commodities fund	19,532,000	—	—	19,532,000
U.S. government agency bonds	—	929,000	—	929,000
Total	$ 242,283,000	929,000	57,463,000	300,675,000

Investment return (loss) included in nonoperating in the accompanying consolidated statements of activities for the years ended May 31, 2016 and 2015 were composed of the following:

	2016	2015
Interest and dividend income	$ 427,000	617,000
Net unrealized (loss) gain	(17,441,000)	5,226,000
Net realized gains	8,503,000	1,773,000
Investment expenses	(384,000)	(368,000)
	$ (8,895,000)	7,248,000

(6) Employee Benefits

(a) Defined-Benefit Plans

CR maintains four defined-benefit plans for its employees. Three of these plans are noncontributory defined-benefit plans: one plan is administered by CR (the Management Frozen Plan) and the other two plans are administered jointly by CR and the Newspaper Guild of New York (the Union Frozen Plan and Union Adjustable Plan). The fourth plan is a noncontributory multiemployer pension plan providing supplemental pension benefits for all guild-represented employees (the Multiemployer Plan). Contributions to the Multiemployer Plan and the related expense recognized were $78,000 and $118,000 in 2016 and 2015, respectively.

The measurement date used to determine pension benefit measures for the Management Frozen Plan, the Union Frozen Plan, and the Union Adjustable Plan is May 31, 2016.

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

On April 5, 2013, CR and the Newspaper Guild of New York entered into an agreement, which suspended benefit accruals for all participants of the Union Frozen Plan, effective May 31, 2013. CR intends to continue to make contributions to the Union Frozen Plan in amounts sufficient to meet applicable funding requirements.

On June 1, 2013, as part of the collective bargaining agreement, CR adopted a new, low-volatility, defined-benefit pension plan (the Union Adjustable Plan), subject to the approval of the IRS and began accruing benefits for Union-represented employees. During 2016, CR's contributions to the plan were equal to 5% of eligible participant salaries, plus an additional $100,000. For 2015, CR's contributions to the plan were equal to 6% of eligible participant salaries plus an additional $100,000. Based on the amount of investment returns from plan assets, the benefit rate is adjusted in subsequent years to maintain the same level of employer contributions.

(b) Obligations and Funded Status

At May 31:

	Pension benefits	
	2016	**2015**
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	$ 110,489,000	100,268,000
Service cost	2,232,000	2,133,000
Interest cost	4,430,000	3,844,000
Actuarial loss	1,125,000	735,000
Benefits and administrative expenses paid	(3,261,000)	(2,145,000)
Change in assumptions	4,902,000	7,018,000
Settlement of Management Plan	(2,157,000)	(1,364,000)
Projected benefit obligation at the end of year	117,760,000	110,489,000
Change in plan assets:		
Fair value of plan assets at the beginning of year	86,214,000	81,094,000
Actual return on plan assets	(946,000)	4,449,000
Employer contributions	4,039,000	4,180,000
Benefits and administrative expenses paid	(3,261,000)	(2,145,000)
Settlement of Management Plan	(2,157,000)	(1,364,000)
Fair value of assets at the end of year	83,889,000	86,214,000
Funded status	$ (33,871,000)	(24,275,000)

The accumulated benefit obligation for all defined-benefit pension plans was $117,760,000 and $110,489,000 at May 31, 2016 and 2015, respectively. The actuarial present value of the benefit obligations and the funded status of the Management Frozen Plan, Union Frozen Plan, and Union

Adjustable Plan on a combined basis as of May 31, 2016 and 2015, as provided by CR's actuaries, were as follows:

		2016	2015
Funded status:			
Accumulated benefit obligation	$	117,760,000	110,489,000
Projected benefit obligation	$	117,760,000	110,489,000
Fair value of plan assets available for benefits		83,889,000	86,214,000
Funded status	$	(33,871,000)	(24,275,000)

		Management Frozen Plan	
		2016	2015
Funded status:			
Accumulated benefit obligation	$	35,093,000	36,226,000
Projected benefit obligation	$	35,093,000	36,226,000
Fair value of plan assets available for benefits		28,861,000	30,836,000
Funded status	$	(6,232,000)	(5,390,000)

		Union Frozen Plan	
		2016	2015
Funded status:			
Accumulated benefit obligation	$	76,891,000	70,669,000
Projected benefit obligation	$	76,891,000	70,669,000
Fair value of plan assets available for benefits		50,230,000	51,868,000
Funded status	$	(26,661,000)	(18,801,000)

		Union Adjustable Plan	
		2016	2015
Funded status:			
Accumulated benefit obligation	$	5,776,000	3,594,000
Projected benefit obligation	$	5,776,000	3,594,000
Fair value of plan assets available for benefits		4,798,000	3,510,000
Funded status	$	(978,000)	(84,000)

(Continued)

The amounts recognized in the consolidated balance sheets and as an adjustment to unrestricted net assets for the Management Frozen Plan, Union Frozen Plan, and Union Adjustable Plan on a combined basis as of May 31, 2016 and 2015, as provided by CR's actuaries, were as follows:

		2016	**2015**
Amounts recognized in the consolidated balance sheet consist of:			
Noncurrent liabilities	$	(33,871,000)	(24,275,000)
Total	$	(33,871,000)	(24,275,000)
Total amounts recognized as an adjustment to unrestricted net assets consist of:			
Unrecognized actuarial loss	$	34,641,000	24,579,000
Total adjustment to unrestricted net assets	$	34,641,000	24,579,000

The amount in the adjustment to unrestricted net assets as of May 31, 2016 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a $1,966,000 actuarial loss.

The change of the adjustment to unrestricted net assets of the plans resulted in a decrease of $10,062,000 and $7,241,000 in net assets and is recorded as pension-related changes other than net periodic pension cost in the nonoperating section on the accompanying consolidated statements of activities for the years ended May 31, 2016 and 2015, respectively.

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2016 and 2015 measurement dates were as follows:

	2016	**2015**
Discount rate:		
Management Frozen Plan (preretirement and postretirement)	3.70%	4.05%
Union Frozen Plan (preretirement and postretirement)	3.90	4.30
Union Adjustable Plan (preretirement and postretirement)	4.10	4.35
Future salary increases:		
Management Frozen Plan	N/A	N/A
Union Frozen Plan	N/A	N/A
Union Adjustable Plan	3.00%	3.00%

The discount rate is determined using a method that attempts to match the timing of the pension plan's benefit payouts with the appropriate maturity of the bonds in the Citigroup above Median Yield Curve as of the end of the fiscal year. The individual interest rates in the yield curve are then converted to a single equivalent interest rate that would yield the same discounted value of the benefit payouts. This single equivalent interest rate, subject to rounding to the nearest 0.05%, is the year-end discount rate. As of May 31, 2016, future salary increases are not applicable for the calculation of the projected benefit obligation for both the Management Frozen Plan and the Union Frozen Plan because benefits are frozen in both plans.

Normal annual changes in these assumptions impacts the calculated projected benefit obligation. In 2015, the Organization used the Society of Actuaries Base RP Mortality Table with a Generational Mortality Improvement Projection scale to value its defined-benefit plan obligations. The updated mortality table increased the projected benefit obligation at the end of the year by approximately $6,944,000 at May 31, 2015. In 2016, the liability increased by $4,902,000 primarily due to a decrease in the discount rate used for benefit calculations.

Components for net periodic benefit cost for the Management Frozen Plan, Union Frozen Plan, and Union Adjustable Plan on a combined basis for the years 2016 and 2015 were as follows:

		2016	2015
Service cost	$	2,232,000	2,133,000
Interest cost		4,430,000	3,844,000
Expected return on plan assets		(4,826,000)	(4,673,000)
Amortization of net loss		965,000	305,000
Settlement loss		772,000	431,000
Net periodic benefit cost	$	3,573,000	2,040,000

Due to significant lump-sum distributions exceeding service and interest costs in the Management Frozen Plan, a $772,000 and $431,000 settlement loss was recognized and is included in pension expense for the years ended May 31, 2016 and 2015, respectively.

(Continued)

The weighted average assumptions used to determine net periodic benefit cost for the years 2016 and 2015 were as follows:

	2016	2015
Discount rate:		
Management Frozen Plan (preretirement and postretirement)	4.05%	3.25%
Union Frozen Plan (preretirement and postretirement)	4.30	4.40
Union Adjustable Plan (preretirement and postretirement)	4.35	4.50
Expected return on plan assets:		
Management Frozen Plan	6.00%	6.00%
Union Frozen Plan	6.00	6.00
Union Adjustable Plan	5.00	5.00
Future salary increases:		
Management Frozen Plan	N/A	N/A
Union Frozen Plan	N/A	N/A
Union Adjustable Plan	3.00%	3.00%

The Organization’s overall expected long-term rate of return on plan assets is 6.0% for the Management Frozen Plan and Union Frozen Plan. The returns are based exclusively on historical returns for the asset classes for the holdings of each respective plan, without adjustments. The Union Adjustable Plan has a more conservative investment strategy and the expected rate of return is 5.0%.

(c) Plan Assets

The weighted average asset allocation of the Management Frozen Plan’s assets at May 31, 2016 and 2015 was as follows:

	Management Frozen Plan’s assets	
	2016	**2015**
Asset category:		
Domestic equities	31.4%	29.7%
International equities	23.1	24.6
Fixed income	44.8	43.3
Other (money market)	0.7	2.4
Total	100.0%	100.0%

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

The Management Frozen Plan's commingled funds, as of May 31, 2016 have daily redemption frequencies (with the exception of International equity – commingled funds, which have semimonthly redemption frequencies and require a redemption notice of 15 days), with redemption periods of two days or less. There are no redemption restrictions as of May 31, 2016. The Management Frozen Plan's assets were fair valued as of May 31, 2016 and 2015 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

	Management Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
May 31, 2016:			
Domestic equity – commingled funds	$ 9,055,000	—	9,055,000
International equity – commingled funds	—	6,671,000	6,671,000
Fixed-income – commingled bond funds	12,926,000	—	12,926,000
Other (money market)	209,000	—	209,000
Total	$ 22,190,000	6,671,000	28,861,000

	Management Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
May 31, 2015:			
Domestic equity – commingled funds	$ 9,143,000	—	9,143,000
International equity – commingled funds	—	7,575,000	7,575,000
Fixed-income – commingled bond funds	13,367,000	—	13,367,000
Other (money market)	751,000	—	751,000
Total	$ 23,261,000	7,575,000	30,836,000

(Continued)

The weighted average asset allocation of the Union Frozen Plan's assets at May 31, 2016 and 2015 was as follows:

	Union Frozen Plan's assets	
	2016	**2015**
Asset category:		
Domestic equities	35.2%	36.9%
International equities	10.3	9.6
Fixed income	37.3	37.8
Multialternative funds	9.9	9.9
Real estate equities	5.2	3.5
Other (money market)	2.1	2.3
Total	100.0%	100.0%

The target allocation for assets of the Union Frozen Plan is 40% fixed-income securities, 35% U.S. equity securities, 10% international equity securities, 10% multialternative funds, and 5% real estate equity securities within a range of 5% of the target percentage.

As of May 31, 2016, the Union Frozen Plan's International equity – commingled funds have semimonthly redemption frequencies and require a redemption notice of 15 days, the Real estate fund has quarterly redemption frequencies, and the remaining commingled funds have daily redemption frequencies, with redemption periods of two days or less. There are no redemption restrictions as of May 31, 2016. The Union Frozen Plan's assets were fair valued as of May 31, 2016 and 2015 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

	Union Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
May 31, 2016:			
Domestic equity – commingled funds	$ 17,654,000	—	17,654,000
International equity funds	2,630,000	—	2,630,000
International equity – commingled funds	—	2,552,000	2,552,000
Multialternative funds	4,956,000	—	4,956,000
Real estate fund	—	2,614,000	2,614,000
Fixed-income funds	18,761,000	—	18,761,000
Other (money market)	1,063,000	—	1,063,000
Total	$ 45,064,000	5,166,000	50,230,000

	Union Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
May 31, 2015:			
Domestic equity – commingled funds	$ 19,150,000	—	19,150,000
International equity funds	2,644,000	—	2,644,000
International equity – commingled funds	—	2,349,000	2,349,000
Multialternative funds	5,113,000	—	5,113,000
Real estate fund	—	1,794,000	1,794,000
Fixed-income funds	19,626,000	—	19,626,000
Other (money market)	1,192,000	—	1,192,000
Total	$ 47,725,000	4,143,000	51,868,000

The weighted average asset allocation of the Union Adjustable Plan's assets at May 31, 2016 and 2015 was as follows:

	Union Adjustable Plan's assets	
	2016	**2015**
Asset category:		
Domestic commingled equities	16.8%	13.2%
International commingled equities	7.1	6.3
Fixed-income – commingled bonds	45.9	41.1
Multialternative funds	22.7	23.8
Other (money market)	7.5	15.6
Total	100.0%	100.0%

The target allocation for assets of the Union Adjustable Plan is 17.5% domestic equity securities, 7.5% international equity securities, 50% fixed-income securities, and 25% multialternative funds, within a range of 10% of the target percentage.

(Continued)

All of the Union Adjustable Plan's assets were fair valued as of May 31, 2016 and 2015 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

	Union Adjustable Plan's assets	
	2016	**2015**
Domestic equity – commingled funds	$ 808,000	464,000
International equity – commingled funds	341,000	220,000
Fixed income – commingled bond funds	2,197,000	1,441,000
Multialternative funds	1,091,000	836,000
Other (money market)	361,000	549,000
Total	$ 4,798,000	3,510,000

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

(d) Cash Flows

In order to meet contribution requirements, CR expects to contribute $1,122,000 to the Management Frozen Plan, $1,575,000 to the Union Frozen Plan, and $1,377,000 to the Union Adjustable Plan for the fiscal year ending May 31, 2017.

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

	Management Frozen Plan	**Union Frozen Plan**	**Union Adjustable Plan**
Year(s) ending May 31:			
2017	$ 2,176,000	3,494,000	59,000
2018	3,480,000	4,337,000	48,000
2019	2,906,000	5,117,000	102,000
2020	2,360,000	7,678,000	112,000
2021	5,163,000	11,057,000	163,000
2022–2026	12,260,000	34,138,000	1,723,000

The expected benefits are based on the same assumptions used to measure CR's benefit obligation at May 31, 2016 and include estimated future employee service.

(Continued)

(e) Other Benefit Plans

CR 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, CR matches employee contributions up to 2% of the employee's salary, subject to certain maximum limitations. Employees vest immediately in the employer matching contribution. Since July 31, 2009, all management/exempt employees receive an 8% employer nonmatching contribution in lieu of ongoing benefit accruals in the Management Frozen Plan. Beginning on June 1, 2015, guild-represented employees receive a 1% nonmatching contribution. These contributions to an employee's account vest 20% per annum over a five-year period. CR's total employer contributions to the 401(k) plans were $3,889,000 and $3,739,000 in 2016 and 2015, respectively.

Additionally, CR's board of directors adopted a Supplemental Executive Retirement Plan 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 $45,000 and $55,000 in 2016 and 2015, respectively.

(7) Commitments, Contingencies, and Concentrations

(a) Leases

CR leases office facilities for which rental expense was $659,000 and $767,000 in 2016 and 2015, respectively. Certain leases obligate CR to reimburse the owners of the office facilities for increases in real estate taxes. The leases have remaining terms of up to seven years. Minimum lease payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent.

Future minimum cash payments under noncancelable leases are as follows:

Year(s) ending May 31:	
2017	$ 639,000
2018	681,000
2019	694,000
2020	444,000
2021	316,000
2022 and thereafter	121,000
	$ 2,895,000

(b) Legal Proceedings

Various claims and legal threats are made against the Organization during the ordinary course of business. On April 1, 2016, a class action complaint was filed against CR in the Southern District of New York alleging that CR violated a state-based privacy statute. CR believes that the case has no merit and intends to vigorously defend the matter.

It is management's opinion that the ultimate disposition of these matters will not have a material adverse effect on the Organization's consolidated financial position, changes in net assets, or liquidity.

(c) Concentration of Business Activity

CR has a concentration of labor subject to a collective bargaining agreement, which expires on June 30, 2017. As of May 31, 2016, CR had a total of 575 employees of which 273 employees are represented by the union.

(8) Long-Term Debt

On December 22, 2005, CR 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 CR's National Research and Testing Center and headquarters and financing of capital expenditures, including the acquisition and installation of various items of machinery, equipment, and other tangible personal property totaling $9,980,000, and paying certain costs and expenses incidental to the issuance of the 2005 Revenue Bonds.

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

On May 29, 2008, the Second Amendment to the Indenture of Trust was entered into between City of Yonkers IDA and The Bank of New York, as Trustee. The Amendment provides for a mode change from the weekly auction rate mode to a variable rate demand bond mode. The average variable rate for the demand bonds for 2016 and 2015 was 0.10% and 0.05%, respectively. The Amendment provides for additional credit enhancement as security for the bonds through a direct-pay letter of credit, issued on May 29, 2008 by JPMorgan Chase Bank (JPMorgan). This letter of credit is discussed in more detail in note 9.

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

(Continued)

The 2005 Revenue Bonds are subject to mandatory sinking fund requirements, which began in 2012. Principal payments of $1,250,000 and $1,300,000 were made in June 2014 and 2015, respectively. Total long-term annual sinking fund requirements for the revenue bonds are as follows:

Year(s) ending May 31:		
2017	$	1,350,000
2018		1,400,000
2019		1,450,000
2020		1,500,000
2021		1,550,000
2022–2038		34,000,000
	$	41,250,000

The issuance costs related to the mode change amounted to $416,000 and were paid out of cash from operations. The issuance costs related to the mode change will continue to be amortized into interest expense using the effective-interest method over the remaining life of the bond. The unamortized amounts are included in other assets on the accompanying consolidated balance sheets as of May 31, 2016 and 2015.

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

Interest expense including the letter-of-credit fees (note 9), and the net interest rate swap activity (note 10) for long-term debt for 2016 and 2015 was $1,310,000 and $1,353,000, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities. The average rate of debt costs on all outstanding debt was 3.2% for the years ended May 31, 2016 and 2015.

(9) Bank Borrowings

CR has an unused line of credit totaling $10,000,000 at May 31, 2016. Terms of this line allow CR to draw down on the line with interest at LIBOR plus 0.5% or the prime rate. At May 31, 2016 and 2015, CR 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, CR entered into a three-year letter of credit in the amount of $41,711,000. Amendments have been executed extending the term of the letter of credit through May 31, 2019. A fee of 0.5% on the letter of credit is included in interest expense for long-term debt included in general and administrative expenses in the accompanying consolidated statements of activities. The terms of the letter of credit allow it to be drawn upon only if CR were to default on the existing bonds and represents coverage for the $41,250,000 balance of the bonds in addition to $461,000 representing 34 days of interest at the highest rate (12.0%) allowable by the indenture. The applicable rate of any amount drawn upon would be based on the higher of the JPMorgan's prime rate or the Federal Funds Rate plus 0.5% in addition to 1.0% to 4.0% based on the length of time the letter of credit contained an outstanding balance. As of May 31, 2016 and 2015, there was no amount outstanding under the letter-of-credit agreement.

(10) Derivative Instruments and Hedging Activities

CR entered into an Interest Rate Swap Agreement (the Swap) in order to manage its interest-rate-related exposure on its debt. The Swap is pursuant to an International Swaps and Derivatives Association, Inc. Master Agreement with Morgan Stanley Capital Services, Inc. (Swap Provider) dated November 14, 2005 in a notional principal amount of $32,900,000. The hedge agreement extends for the period from January 19, 2006 to June 1, 2036 (subject to prior sinking fund redemption). Sinking fund redemptions scheduled for the $47,300,000 debt issue coincide with the scheduled proportional reductions in the notional principal amount of the Swap. As of May 31, 2016, the notional principal amount of the Swap is $28,665,000.

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

As of May 31, 2016 and 2015, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under ASC Topic 820, including the amendment, is $(7,381,000) and $(6,691,000), 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 $14,714,000 and $15,167,000 at May 31, 2016 and 2015, respectively. The Organization's liability associated with CGAs was $12,147,000 and $11,882,000, utilizing a discount rate of 1.8% at May 31, 2016 and 2015. During 2016 and 2015, respectively, CR recognized $312,000 and $217,000 in net unrestricted contribution revenue attributable to new CGAs. Additionally, principally because of changes in the mortality table and the discount rate used to present value the liability, the liability increased by $501,000 and $2,917,000 in 2016 and 2015, respectively. These amounts are reflected as a change in value of split-interest agreements in the nonoperating section of the accompanying consolidated statements of activities.

(12) Restructuring

In order to focus on digital products and other services that are more closely aligned with CR's strategy, on May 27, 2015, CR announced organizational changes that aligned talent in the content development area, relocated and integrated digital teams from New York City to Yonkers and ceased publishing of *ShopSmart Magazine* and *Money Adviser Newsletter*. These organizational changes were completed in July 2015.

The ceased publication of *ShopSmart* and *Money Adviser* resulted in the layoff of certain employees in addition to write-down of $625,000 of previously deferred promotion costs that were not considered recoverable. In addition, the strategic alignment of digital teams resulted in the termination of certain employees who were eligible for severance benefits. The employees were eligible for separation benefits upon the date of their termination, which is based on individual separation agreements, but no later than July 10, 2015. CR recorded $1,140,000 of onetime charges associated with these employee terminations based on the fair value of the termination benefits as of the communication date.

In March 2016, a Voluntary Separation Plan (VSP) was approved. The VSP offered enhanced severance benefits to 233 employees who met certain eligibility requirements. Employees were required to submit an application prior to May 23, 2016, to be considered for participation in the VSP. Although management had the ability to accept or reject applications based on the needs of the business and other factors, management elected to accept all 50 VSP applications submitted, resulting in $7,176,000 of severance expense that is included in general and administrative expenses in the accompanying consolidated statements of activities.

Other severance of $2,044,000 and $2,177,000 represents separation benefits for employees terminated during the normal course of business during 2016 and 2015, respectively. The charge is included in general and administrative expenses in the accompanying consolidated statements of activities. All 2015 severance benefits were paid in fiscal 2016.

As of May 31, 2016 and 2015, there are unpaid severance benefits of $6,164,000 and $1,542,000, respectively, included in accrued compensation in the accompanying consolidated balance sheets. Voluntary separation plan costs of $1,052,000 that are expected to be paid after one year are included in other liabilities in the consolidated balance sheets as of May 31, 2016. Changes in severance liability are presented below:

	Employee termination costs
Severance liability as of May 31, 2014	$ 779,000
Discontinuance of publications and alignment of digital teams	1,140,000
Other severance	2,177,000
Cash and benefits paid	(2,554,000)
Severance liability as of May 31, 2015	1,542,000
Voluntary separation plan costs	7,176,000
Other severance	2,044,000
Cash and benefits paid	(3,546,000)
Severance liability as of May 31, 2016	$ 7,216,000

(13) Other Relationships

The Organization is a member of Consumers International, a nonprofit organization headquartered in the United Kingdom, which focuses on global consumer concerns. Membership payments and expense were $1,035,000 and $984,000 for the years ended May 31, 2016 and 2015, respectively, and were included in consumer advocacy and education on the accompanying consolidated statements of activities.

In May 2005, CR became a member shareholder of International Consumer Research and Testing Limited (ICRT), a United Kingdom company. ICRT is an association of international testing organizations that promotes cooperation in areas such as the regulation of research and testing consumer products, services, and other consumer issues, and the promotion of assistance in joint comparative product testing of its member organizations. Through 2016, CR's investment in ICRT was $93,000 for two capital shares. In 2016 and 2015, CR also paid ICRT membership fees of $108,000 and $118,000, respectively. In 2016 and 2015, CR made payments of $157,000 and $147,000, respectively, for certain product-testing results. Additionally, CR received $445,000 and $389,000 during 2016 and 2015, 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 CR serves, without compensation, on the board of directors of ICRT.

(14) Subsequent Events

The Organization has evaluated subsequent events from the balance sheet date through September 23, 2016, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.